A STUDY

OF

ENGLISH THEORIES OF RENT

A STUDY
OF
English Theories of Rent

BY

J. GHOSH, M.A., Ph.D.

Principal, Anandamohan College,
Mymensingh.

CALCUTTA

KAR, MAJUMDAR & Co.

15 College Square

1924

Published by N. K. Majumder, M.A.
of Kar, Majumdar & Co.,
15, College Square, Calcutta.

Printer : S. C. Majumdar,
SRI GAURANGA PRESS,
71/1, Mirzapur Street, Calcutta.

1006/23

PREFACE

A critical estimate has been attempted in the following pages of the views of the leading English economists on the nature and causes of rent. They contain also some reference to the theories and arguments of American writers on the subject. It is hoped that they may be of some interest to the Indian student of Political Economy, as there is no branch of his science which is of greater importance to him than that which treats of the origin and true character of the 'net produce of the soil.'

I am indebted to my colleague and friend, Prof. S. K. Chakravartty for much assistance with the proofs.

J. GHOSH

MYMENSINGH,
August, 1923.

CONTENTS

CHAPTER I

In his enquiry into the origin and nature of rent, Adam Smith confines his attention to those cases in which rent is the price paid to the owner of land for permission to use it as an instrument of production. And the productive activities that he examines in this connection are agriculture, cattle rearing, mining, fishing and the exploitation of unimproved land for the materials of clothes and houses. He knew, indeed, that both production and rent have wider denotations in common parlance, and he had not made up his mind to restrict their application for the purposes of his science. In the fifth book of *The Wealth of Nations*, for instance, he speaks of the rent of houses and analyzes it into ground-rent and profit on the owner's outlay. But it is left out of sight in the chapters on *Distribution*, presumably because it is paid for an 'unproductive subject', the tenant obtaining the means of payment from some source of income distinct from and independent of the house that he occupies. The rents of factories, shops and ware-houses could not, however, be ruled out of account on this ground. So the conditions which regulate them should have been examined with a view to determine the character of rent by an extensive generalization. This, however, Adam Smith does not attempt, though he emphatically

declares elsewhere that merchants and manufacturers are productive labourers and that their capital and labour "fix and realize themselves in the vendible commodities", which they combine to place in the market. He thus arbitrarily limits the field of his enquiry and, by doing so, he arrives at the conclusion that rent is paid because the productive energy locked up in land enables those who work it to obtain an ampler return than they could earn by any other employment of capital and labour. It is, therefore, in his opinion a "revenue which proceeds altogether from land" and not merely one which is imputed to it with reference to its scarcity and its utility to producers as a requisite of productive work. A study of the circumstances which give rise to rent and determine it in urban areas would have led him to observe that it emerges even where the "active fertility" of land augments in no way what is produced by human effort.* Adam Smith does not,

* This fact is set forth in the clearest light in Pierson's definition of ground rent and of the circumstances in which it originates. "By ground rent," says he, "we do not mean the rent which could be obtained for the land upon which the house is built if that land were used for agriculture or stock rearing...........By ground rent we mean the rent that land already built upon, or suitable for building purposes, is capable of yielding, owing to its being situated in a populous centre, and owing to the fact that land is necessary for every kind of building property, and that well-situated building land is often scarce."

indeed, repudiate such a position. But the view that rent has its genesis and justification in the fact that "nature labours along with man" colours much of what he says on the subject and is at least partially reponsible for whatever is singular and untenable in his theory of rent, though as we shall presently see, his main conclusions are substantially correct in spite of the restricted purview.

The chapter of *The Wealth of Nations*, which is devoted to the study of this subject, opens with the observation that rent is "naturally the highest price which the tenant can afford to pay in the actual circumstances of the land." The comparative adroitness of the parties concerned as well as the difference, if any, in their knowledge of the conditions that ought to control the market and even altruistic motives may sometimes affect it. But their influence is more or less local and limited. And when there is perfect freedom in the matter of bargaining and that freedom is exercised on both sides under the exclusive influence of self-interest, the tenant has to surrender to the landlord all that remains of the fruits of his industry after deducting what is required for replacing his stock with ordinary profit. For if ordinary profit does not satisfy him, there must be many others to whom it will be a sufficient attraction, and they will bid for the land till rent and profit are adjusted in the manner indicated. Beyond this limit, however, rent can not go, as it will entail loss of the tenant's capital or at least failure on his part to earn

as much as he might have done in other lines of business ; and in either case capital and business ability will seek less unpromising occupations. Wherever, therefore, there is unrestrained competition, the rent of land is neither more nor less than the margin between the total produce or its value and the cost of obtaining it, if under cost is included the ordinary profit of similar undertakings in the neighbourhood.*

The total produce varies it is true, with different treatments of the soil. But this element of uncertainty can not affect the determination of rent, for it is determined with reference to what the land is expected to yield when labour and capital are applied up to the point at which further application of them ceases to be profitable. Adam Smith's analysis of the conditions of success in business is not carried far enough to bring out this fact. But it is implied in his definition of rent as the highest price which can be paid for the land, since the highest price

---

* Turgot suggests that rent is determined in this way where the land is exploited by capitalists. "The competition of rich undertakers in agriculture," says he, "fixes the current price of leases in proportion to the fertility of the land and the price at which its products are sold, always according to the calculations the farmers make, both of their own expenses and of the profits they ought to draw from their advances : they cannot give the proprietor more than the surplus. But, when the competition among them is very keen, they give him all this surplus, the proprietor only letting his land to him who offers the highest rent."

can not be offered by a farmer who is disposed to be content with a less intensive employment of the instruments of production. Incompetence or ignorance may prevent him, no doubt, from making the best possible use of his holding even when there is no slackness on his part. But where 'preference or restraint' does not protect his inefficiency, he can not help paying for it in diminished profits. For it follows from the universality of the desire to promote pecuniary interest and of the readiness to labour for its sake, that others more capable than he will offer a higher price for the land than he can conveniently pay, because they can make more out of it. And competition like this must ultimately fix it at a figure which corresponds exactly to the difference between the yield of the land when worked up to the limit of profitable utilization and the cost of working it in this manner. Adam Smith does not, indeed, take the trouble to define cost and produce in this way, and so there is an apparent lack of thoroughness in his exposition. But the interpretations which are here put on them are only legitimate deductions from his doctrine of natural liberty and of the over-mastering influence of the economic motive on the life of human beings.*

---

* Compare :—The person who employs his stock in maintaining labour, necessarily wishes to employ it in such a manner as to produce as great a quantity of work as possible.—*The Wealth of Nations*, ed. by Edwin Cannan. Vol. I. Page 259.

In the industrial organization which Adam Smith has in view, the tenant does not till the land himself, but furnishes the required capital and brings it into effective relation with the other agents of production by taking the lease of a farm and hiring labourers to work it. He expects, therefore, to earn from his business a reward for the important coordinating function which he performs and interest on the capital which he invests in it. His expectations, however, in the matter are determined to a great extent by conditions outside his own narrow industrial field, and the higgling of the market can not materially affect them for any length of time. The wages too that he pays are settled with reference to the rate that obtains in the general market for labour, except where a mischievous policy of interference discourages farming in the supposed interests of other industries. The cost of cultivation is, therefore, more or less fixed, so long as there is no change in the art or knowledge of the farmer. And he is prepared to pay to the landlord only what remains of the gross produce after deducting this cost of cultivation.

Rent is thus a residuum determined by forces which are not wholly amenable to the control of the landlord. It does, indeed, amount sometimes to famine rent ; but even then there is no violation of the principle by which it is said to be governed. For where the tenant himself supplies the labour and can not dispose of it in any more profitable way,

while owing to excessive competition labour such as his is very poorly paid, rent absorbs everything that remains of the produce after replacing his slender outfit and deducting a bare subsistence for him, only because a bare subsistence is all that he can expect under the industrial conditions of his society. Adam Smith's study of these conditions in old and densely peopled countries leads him to conclude that both wages and profits must be low where "the soil and the climate" or laws and institutions stand in the way of a progressive increase of the national income. And he would not have hesitated to say that adverse circumstances like these operate with a double force when the profits of stock and the wages of labour are earned by one and the same person, and that person has not that ultimate safe-guard against starvation which is possessed by the capitalist farmers in the funds that they employ in industry.

But even where wages and profits are thus cut down to a low figure, it would be incorrect, according to Adam Smith, to say that rent is a deduction from legitimate wages and profits. The peasant seems, indeed, to live by the breath of his landlord, where there is a paucity of remunerative lines of work and increasing numbers of small men have to bid in consequence for the possession of land in spite of the fact that there is not a superbundance of it. But it is really the "general circumstances of the society" and not anything which the landlord may do to advance his interests that ulti-

mately keep down the peasant's wages and profits, though where these are low, rent can not fail to be relatively high, for it is all that remains of the produce of the land after satisfying the claims of capital and labour as determined in the main by general economic conditions. The enhancement of rent is thus strictly speaking only the collateral result of the circumstances that bring about the degradation of labour.

The view which is here presented of the relation between rent on the one hand and wages and profits on the other is the considered opinion of Adam Smith, though he sometimes loses sight of it. It may, indeed, be thought that since they are determined in a case like the above by the strategic position of the two parties to the contract, not much is gained by an attempt to fix the order of sequence among the economic phenomena, where high rents and low wages go together. The earnings of the peasant are unsatisfactory because he is weak ; and it does not seem on a superficial examination to make any difference whether we attribute his poverty to his weakness or to the relative strength of the landlord. But closer reflection will reveal that more is involved in the discussion than a mere question of form, unless it is to have a purely academic interest. For if the tenant's misery is assignable in any large measure to the grim pursuit of selfishness by the privileged order, then both justice and expediency demand that its privileges should be curtailed in the interests of

the weak. If, however, the responsibility for his distress does not lie with this class, the circumstances which cause or perpetuate it being in no sense its creation though it gains by them, then the remedy for that distress must be sought elsewhere. Adam Smith does not attach sufficient importance to this distinction in discussing questions that fall within the scope of economic politics, though, like the Physiocrats, he is inclined to associate power and wealth with their abuse. He holds, however, that the remuneration of labour depends not on the extent of available land, but on the magnitude of the fund that is destined for the maintenance of industry. And he refers in support of this view to the experience of countries in which labour is poorly paid, though land is plentiful and cheap. His analysis, therefore, of the phenomena of distribution does not justify the suspicion that the landlords are the authors of the circumstances which sometimes prevent peasants from claiming anything more than what is absolutely necessary for existence.

The infrequency in England of the arrangement in which the same man supplied the capital and the labour and probably the belief that it was a transitional form led Adam Smith to speak in detail of the organization in which the agents of production are owned by three different orders of people. But his reasoning is equally applicable to the case before us. He starts with the truism that where land, labour and capital are furnished by three different

sections of the community, there must be a tripartite division of the national income to satisfy their respective claims. And he observes next that the share of each group is determined in such a way as to preclude the possibility of capital and labour becoming merely residual claimants at the distribution of the national revenue. There are, according to him, natural or normal rates of rent, profit and wages. And though fluctuations of demand and supply may cause the actual dividend under these heads to diverge from the normal rate to any extent, yet whenever the equilibrium is disturbed in this manner, forces are set in motion which tend to restore it. There, is, therefore, no reason for concluding that the landlords are able to mulct their tenants when they are small men. Their political ascendency and social position may, indeed, enable them in exceptional circumstances to deprive the latter of their due share of the national wealth. But where such a thing happens, it is owing to the intrusion of non-economic forces within the economic sphere. So long as there is free competition, there is less propriety in saying that wages and profits are low because rents are high than there is in the statement that rents are high because wages and profits are low.*

* Fawcett supports this view by a reference to history. "Rents," says he, "must be increased by any circumstance which diminishes the expense of cultivation; and, conversely, rents must be diminished, if the expenses of cultivation should

That high rent does not imply depletion of wages and profits in circumstances which prevent the tenants from claiming their proper share of the national dividend will appear from the following illustration given by Adam Smith in which the classes that represent the different factors of production must be regarded as quite competent to hold their own against one another. The grapes grown on certain areas in France have a peculiar flavour on account of which the wine manufactured from them is in great request in fashionable circles and commands, therefore, a much higher price than ordinary wine. The vine-yards in these districts are dressed with more than ordinary care and skill ; and those who own them are often substantial farmers, who understand the market and are able to take risks. Yet much of the high price of their produce goes to the landlord, for the simple reason that a comparatively small fraction of it is sufficient for paying the wage-earners and rewarding the capital invested at the customary rate.

---

be augmented. Such an augmentation has during the last few years been caused by a rise in the wages of agricultural labourers; and this is one of the chief circumstances which has contributed to the very general reduction in the rent of land in England that has recently occurred.........Again, if the general rate of profit throughout the country were to rise, the profit realized by farmers would also rise...........A rise in the rate of profit, or in the rate of wages, unless accompanied by some counteracting circumstances will cause rents to decline."

The income of the landlord varies thus with "the actual circumstances of the land" among which are to be included the cost of cultivating it and the value of the crop which it is fitted to grow. It follows, therefore, that there must be more than one normal rate of rent in a locality, unless its entire soil is of an uniform standard of excellence. Adam Smith does not work out this problem, but shifts his standpoint according as one or the other aspect of it claims his attention. When the patent inequalities in the productive power of different lands attract his notice, he is constrained to admit that their rent varies with their fertility and their proximity to the market for their produce. But he soon loses sight of this truth or at any rate does not attach due weight to it, probably because his definition of rent as the residual share implies the determination of its amount in any particular case by the degree of excellence of the land as an instrument of production. A much fuller treatment is accorded on the other hand to the difference in the capacity of various kinds of produce of yielding a rent. And what he says in this connection points to the conclusion that the normal rate of rent is determined by what is paid for land that is utilized for raising food for man or beast. Such a rate rules, because "if any particular produce affords less, the land is soon turned into corn or pasture ; and if any affords more, some part of the lands in corn or pasture is soon turned to that produce."

Reasoning like this is based on a couple of unwarranted assumptions, each of which contravenes not only facts of common experience, but also some of Adam Smith's own observations on the subject. Even corn lands are not all of them of equal fertility and so are not paid for at the same rate. Besides, there are often difficulties in the way of raising one crop instead of another, which are either insurmountable or are overcome only when there is a very considerable change in their relative values. And their existence is recognized by Adam Smith when he says that the impossibility of growing other vegetable produce on rice lands prevents a correspondence between their rent and that of lands devoted to other crops. He takes this, it is true, to be an extreme and rather uncommon case of exclusive fitness for a particular use. But difficulties only less in degree in the way of adaption to a variety of uses mark out particular areas for specific modes of exploitation in such a way as to preclude any direct influence of their rents on one another. The theory then of a normal rate of rent as ruling throughout a society or neighbourhood must be given up as true only of districts where all the land is of an uniform productive power or is capable at any rate of yielding the same surplus after meeting the legitimate costs of cultivation. There are, indeed, large tracts of land in most agricultural areas, which are valued at the same rate because they yield similar returns to capital and labour. But in fixing

attention on this obtrusive sameness of conditions, there is a risk of losing sight of the important truth that rent varies with the fitness of the land for the object to which it is devoted and with the relative importance of that object as a source of enjoyment or wealth. Adam Smith himself seems to have realized the barrenness of his theory and above all its incompatibility with his fundamental position, *viz.*, that under the regime of unfettered competition, the rent of a piece of land is all that remains of its produce after deducting ordinary profit and expenses of production. And, in fact, much more illuminating with regard to the question before us are his observations on the want of correspondence between the normal or usual rate and the rent paid for lands which are devoted to particularly valuable crops. He says, for instance, that it "bears no regular proportion to the rent of equally well-cultivated land in its neighbourhood but may exceed it in almost any degree" while "the wages of the labour and the profits of the stock employed in bringing such commodities to market are seldom out of their natural proportion to those of the other employments of labour and stock." The residual character of rent is thus set in the clearest light by his admission that unlike wages and profits, it shrinks or swells with the value of the produce from which it is obtained.

Adam Smith's use of the term 'natural' or 'normal' as a synonym for usual or ordinary is misleading when taken along with his empirical general-

ization about the determining influence of corn-rent on the rent demanded from the cultivators of other crops. And it may be suspected also that he himself is not quite proof against the insidious suggestiveness of these words. He says, for instance, that the effectual demand for a commodity is the demand of those who are prepared to pay its natural price or the price which will cover rent, wages and profits at their natural rates. But in commenting on the costliness of those productions, the supply of which must be limited, because they require a "singularity of soil and situation" for their growth, he hazards the opinion that natural causes hinder the effectual demand for them from ever being fully supplied and so bring about a divergence between the normal rent and that which is yielded by the lands on which they are raised. The effectual demand, however, is *ipsissima verba* one which must be fully supplied, because it effectuates the supply. And if it allows the payment of a higher rent than that of corn-lands, this higher rent must be 'natural' for the soil which yields it, even though there may be no correspondence between it and the usual rate of rent in the locality. Adam Smith is, therefore, hardly justified in treating as exceptional the relatively high rent paid for lands which are exploited for "singular and esteemed productions." Moreover, he does not even make a passing reference to the cases in which owing either to the inferiority of the soil or the slackness of the demand for its produce a lower rent

must be charged than that which is usual in the district. These are serious objections, for in an etiological enquiry, the so-called exceptions are of immense value as they bring out the exact relation between the phenomenon under investigation and the complex of circumstances on which it is dependent. So the undue stress that Adam Smith lays on the existence in every locality of a standard rate of rent as indicated by the payment for corn-lands serves to obscure the full significance of his own statement that the rent of land varies with its excellence and with the intensity and volume of the demand for its productions.

It may be thought that the high rent paid for superior lands is partly at least a compensation for the expense incurred in improving it. But as in the case of the French vineyards, the expense is often borne by the cultivator, and he expects to be indemnified for it by additional profit at no more than the usual rate. The theory has, indeed, been sometimes advanced that all rent is deferred payment for services rendered in the past in connection with the land. But Adam Smith leaves us in no doubt about his views on the subject. He cites the case of those who pay rent for permission to gather kelp which grows in Scotland on rocks lying within the high water mark. This sea-weed does not owe its growth to the ameliorating influence of human industry or capital. So the rent paid by those who gather it is in no sense a return for previous investment. And

if the consideration paid for the exploitation of kelp shores is neither interest nor profit, the same is true of all payments to landlords, though the original rent may be augmented in some cases as a result of improvements effected by the investment of capital. Even in these cases, however, it would be a mistake to analyze the value paid for land into two factors, one of which is rent proper, while the other is interest on capital sunk in land, for, as Adam Smith points out, the improvement is as often made by the stock of the tenant as by that of the landlord. The enhanced payment is really the current price of the superior commodity which the landlord is in a position to offer ; and it makes no difference whether the superiority is due to human industry or to nature. Improved methods of culture, increase of population or of wealth and new facilities for transport may as much as any outlay by the landlord increase the quantity or value of the surplus produce that goes to him. But in all these cases, the increase in his income is due to the fact that circumstances which are not his creation add to the utility or value of the land that he lets, just as other circumstances may cause it to deteriorate and thus adversely affect his income from it.

Another illustration from *The Wealth of Nations* will bring out very clearly the position of its author. He says that when with the increase of population and the extension of husbandry, unimproved wilds become scarce and so fail to meet the demand for

butcher's meat, a considerable portion of arable land is devoted to the production of food for cattle and sheep. Their price, therefore, rises till it covers not only the wages of the labour required for tending them, but also a rent equal to that of other arable land and profits similar to those earned by farmers who grow corn. But the animals reared on such unimproved wilds as still exist are, unless inferior in quality, sold at the same price as those which are reared at considerable expense. The tending of sheep and cattle on these wilds becomes, therefore, an exceptionally profitable business ; but the exceptional profits intensify the competition for such pasturage, which sooner or later transfers the advantage of the high price to the landlords. It appears thus that rent is not at all "proportioned to what the landlord may have laid out upon the improvement of land, or to what he can afford to take, but to what the farmer can afford to give."

Proof of a different kind of this proposition is furnished by the state of things in a country which is poor in capital, but rich in labour and land. Adam Smith refers to a case like this when he says that there are circumstances in which profit eats up rent and cuts down wages to an irreducible minimum. His language here as in so many other places is liable, it is true, to misconstruction. But what he really means is that the ordinary rate of profit must be high where there is a dearth of capital and that where profit thus engrosses the greater portion of

the produce, less will remain for division as wages and rent. Of these two, again, there is a certain limit below which the former cannot be reduced, for the labourer must be fed, clothed and sheltered so long as he is about the work, while there is no assignable limit below which rent may not fall. This illustration throws, therefore, a flood of light on the exact position of the landlord in the distribution of wealth. He is the residual claimant, and rent is only what remains of the gross produce after meeting the claims of capital and labour as determined by the current rates of profit and wages.

This view may appear incompatible with the dictum that disturbances of the rent level are corrected by the action of the landlords in increasing or restricting the supply of land. But the fact is that only temporary deviations from the prevailing rates caused by fluctuations in the price of agricultural produce are remedied in this way. Adam Smith could not fail to perceive that "where the circumstances of the society or the neighbourhood" prescribe a high remuneration for capital, no remedial measure of the landlords could improve their income at its expense. And this is what he tries to bring out in the illustration to which reference has been made. His fundamental position then is,—Given the ordinary rates of profit and wages, rent is all that remains of the gross produce after deducting them as thus settled, and this surplus determines in every concrete instance what might be called in his

language the natural rate, as any departure from it due to temporary causes is corrected by the control exercised by the landlords over the supply of land.

There is, it should be observed, no justification for the criticism that this theory of rent is a mere re-statement of the economic truism that rent, wages and profit exhaust the national dividend. If all that is produced by a community is appropriated in these three ways, rent is, of course, whatever remains of the total produce after deducting wages and profits. But it is not a verbal proposition like this, which Adam Smith wants us to take as summing up his observations on the subject. What he means is that "the general circumstances of the society and the particular nature of each employment" determine the rates of wages and profits in it, so that if we know those circumstances, we may find out what rent will amount to by deducting wages and profits as settled by them from the total income. The landlord's is a residual share since determinate forces and conditions, which are not amenable to his control regulate wages and profits. Adam Smith's position would certainly have been open to criticism, if he had represented any of the other two agents of production as a residual claimant at the distribution of wealth. This, however, he does not do except in a few passages which will be presently examined.

It has been said that Adam Smith fails to realize clearly the function and place of the entrepreneur in the economy of distribution, when he characterizes

rent and not profit as the residual share.* But that there is no such failure appears from the statement that "rent makes the first deduction from the produce of the labour which is employed upon land". He observes also, though not in many passages, that whatever remains after paying this rent and replacing the capital employed is profit. And still more unequivocal is his testimony on this point when he says that "the occasional and temporary fluctuations in the market price of any commodity fall chiefly upon those parts of its price which resolve themselves into wages and profit, and that the part which resolves itself into rent is less affected by them."† There is, in fact, no real inconsistency between this view of functional distribution and the one which represents rent as the surplus that remains after deducting the cost of production from the gross

---

* Taussig observes that Adam Smith understood by gross profit both the return to capital and the return to its employers, and pointed out that double interest was in his time, 'a fair, moderate, reasonable profit.'

† Compare :—"The profits of stock vary with the price of the commodities in which it is employed. As the price of any commodity rises above the ordinary or average rate, the profits of at least some part of the stock.........rise above their proper level, and as it falls they sink below it."

Also :—

"It (profit) is affected not only by every variation of price in the commodities which he (the trader) deals in, but by a thousand other accidents.........It varies, therefore, not only from year to year, but from day to day and almost from hour to hour."—*The Wealth of Nations*, ed. by Edwin Cannan, Vol. I, Page 89.

produce. Given the ordinary rates of profit and wages, whatever is expected to remain after replacing the stock from the gross produce and subtracting from it wages and profit at the ordinary or average rate is demanded as rent. The farmer who wants to take a lease has to offer to the landlord consideration at this rate, and he does offer it because he expects to earn usual profits at least. But as both the gross produce and the cost of production depend among other things his knowledge and ability and on the character of the season, there may be any degree of divergence between his actual net earnings and the anticipated profit. It follows, therefore, that while rent generally speaking is a residual share, profit in any individual case may vary from the ordinary or average rate owing to unforeseen circumstances and so may have all the uncertainty and indefiniteness of a residuum.

But how are the ordinary rates of wages and profits determined? Adam Smith's discourse on the subject is remarkable for wealth of historical detail and for the readiness with which he turns from abstract principles to the realities of life for a just appraisement of economic and political institutions. As, however, the enquiry falls outside the scope of the present treatise, a brief notice of his searching analysis is all that can be attempted here. An increase of wealth, he observes, must lead to an improvement in wages, for the relative scarcity of labour "occasions a competition among masters who

bid against one another in order to get workmen and thus break through their natural combination" to prevent the income of the wage-earners from rising at their expense. But he takes care to explain that it is the growth and not the actual greatness of the wealth of a country that brings about such a desirable result. Labour may be poorly paid even where the fund for its employment is large, if there has been no augmentation of it for some time, while the number of labourers has continued to increase. And such an increase may ultimately reduce wages to "the most scanty and miserable subsistence." Below this limit, however, wages cannot fall, for men will not labour unless they can live by it. But whether it will be above this minimum or not depends on the state of the demand for labour, which in its turn is determined by the volume of the fund which maintains it. Its remuneration, therefore, will be liberal, moderate or scanty according as this fund is growing, stationary or shrinking. This fund, again, is always a composite stock made up of revenue and capital or to put it more precisely, of that portion of revenue which can be spared for the purchase of personal services and that amount of capital which its owners are in a position to offer to others for direct assistance in their work of production. The rate of wages is, therefore, immediately dependent not on the magnitude of the total capital or of the aggregate income of the community but on certain portions of these that industrial

conditions and the standard of comfort among the moneyed classes combine to devote for the support of wage-earners. And it rises or falls according as there is an improvement or decline in either or both of these portions. Nominal wages are, of course, regulated by another circumstance as well, *viz.* the ordinary or average price of provisions ; but the real income of the labourer at any particular time depends neither on it, nor even on the rate of profits or the extent of fertile land in the country, but on the fund which is available for the maintenance of productive and unproductive labour. Such is Adam Smith's opinion of the connection between the earnings of workingmen and the resources of their employers ; and he supports it by a reference to the fate of Bengal in the third quarter of the eighteenth century, when neither the abundance of fertile land nor the sparseness of the population could prevent hundreds of thousands of human beings from dying in one year of hunger, while there was a decline of the wealth which could employ labour.* He might have

* "In a fertile country which had before been much depopulated, where subsistence, consequently, should not be very difficult, and where, notwithstanding, three or four hundred thousand people die of hunger in one year, we may be assured that the funds destined for the maintenance of the labouring population are fast decaying."—*The Wealth of Nations*, edited by Edwin Cannan. Vol. I. Page 75.

We are, of course, concerned here with the use that Adam Smith makes of his explanation and not with its correctness or sufficiency.

cited also the experience of rural England in his own day, for it witnessed a remarkable enhancement of the wages of labour owing to the influx of surplus capital from urban areas, which improved the condition of the wage-earners, while it augmented at the same time the income of the landlords.

The rate of profit is, according to Adam Smith, determined by the volume of the fund which is available for productive enterprise and the number and importance of the avenues which are open to it. But as this fund generally increases with the increase of wealth, profits, like wages are affected by prosperity and opulence. The effect, however, is dissimilar in the two cases, as the same increase of stock which benefits labour tends to cut down the rate of profit. High wages thus generally mean low profits. But both are low where a mischievous policy of national exclusiveness curtails the opportunities of employment or a defective administration of justice paralyzes industry. They are high, again, in new colonies, where capital as well as labour is scarce as compared with the material resources of production that are supplied by nature. A similar happy combination is sometimes found also in old countries when there is an accession to the number of trades in them, as the extension of the field of employment creates a new demand for labour and renders possible at the same time a selective employment of capital in those industries

which promise the best returns. Profit may appear, indeed, in circumstances like the above to eat up rent, for rent is generally low where any of them is present. It may also be suspected of encroaching on the share of the national revenue which ought to go to labour, where high profit and low wages exist side by side. But the truth is that the normal rate of each is determined by a different equation, though the terms in the different equations are not altogether unlike. For while profit depends on the amount of capital which is available for employment and the variety and dimensions of the industries that seek its assistance, average wages vary directly as the size of the fund which is meant for the remuneration of labour and inversely as the number of labourers, and lastly rent is all that remains of the produce of the land after deducting both wages and profits and replacing the stock.

These principles require no modification when we turn from a general survey of industry to the conditions which obtain in any particular branch of it. For though profits vary from trade to trade, yet as competition assures equality in "the advantages and disadvantages of different employments of stock" they are not altogether independent of one another. Wages too, though they are not uniform for all kinds of employment, are for a similar reason not altogether unrelated. It follows thus that variations in the demand for the produce of land cannot permanently

affect agricultural wages and profits in such a way as to destroy their correspondence with wages and profits in other industrial ventures. Rent, therefore, moves up or slides down or even disappears according as there is an improvement or slackening of the demand with an analogous movement of prices. Farmers and labourers may, no doubt, get the benefit of rising prices in the first instance ; but their gain is transient as it is sooner or later wrested from them and goes to swell the rent receipts of the landlords.

That the landlords are able to lay their hands on the whole of the residuum is due to the circumstance that they are owners of an agent of production, the amount of which it is impossible to increase by any application of capital and labour, so that those who require it for purposes of production have to surrender in exchange everything which is over and above the remuneration that will just induce them to carry on the work. Actual rent may fall short of it ; but where competition is not hindered by the intervention of other forces, it is bound to reach this limit, which is fixed by the inability of the farmers to pay a higher sum without sacrificing their capital or foregoing ordinary profits. To put it briefly, landlords are, according to Adam Smith, in the position of monopolists, and the rent which is paid for their commodity is "naturally a monopoly price."

The origin of rent is thus to be sought in the fact of the appropriation by a certain class of an

agent of production, which is needed by other classes for carrying on their work. For inequalities in the amount of rent of different lands, an explanation may be found in differences in their accessibility or in their 'natural or improved fertility'. But that there is any rent at all is due to the capital circumstance that land has been appropriated and so must be paid for by those who want its use for productive purposes. "As soon as land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise or collect from it. His rent makes the first deduction from the produce of the labour which is employed upon land."

Rent is thus the price of a monopoly and is on that account "the highest that can be got." It bears no necessary relation to the landlord's outlay, and so differs in an essential respect from the price or hire of other commodities, which is determined by what "the producers can commonly afford to take and at the same time continue the business." The value of these soars, indeed, at times above this low level in consequence of a sudden improvement of the demand. But since their stock is capable of augmentation and is augmented when the market requires it, their value is generally speaking "the lowest which can be taken, not upon every occasion indeed, but for any considerable time together." Rent on the other hand, like the price of those articles

the supply of which is controlled in their own interests by a small number of men, 'must needs be the highest which can be squeezed out of those who want land or which, it is supposed, they will consent to give.' And the obvious reason for the difference is that the field of competition among its dealers cannot be extended by any application of labour and capital.

Adam Smith's position with regard to this vexed question is not altogether indefensible, though it requires to be modified and clearly defined.* Rent would, indeed, be a monopoly price in the strictest

* Gide criticizes Adam Smith's view from the standpoint of the Ricardian and meets the criticism in the following words. "The owner", says he, "of a fertile piece of land certainly possesses a privilege, a monopoly if you will, but a monopoly of quite a peculiar nature. For it consists not in the power to sell at an enhanced price, but in the power to produce more cheaply. A mere matter of words, you may say. Not so; for while the monopolist injures the public by unduly raising the price, the owner of the fertile land accepts the price fixed on the market by necessity. And even if, in a moment of generosity, all the owners of corn land were to give up their rents, the current price of corn would not be reduced one farthing...........We see that on this theory, there are only differential rents; that is to say, there would be no rents if all the lands were of the same quality. Now it is just at this point that Ricardo's theory seems inexact. For even supposing all lands were of the same quality, if there were not enough for man's wants, rent would still emerge. There is not merely differential rent. There is such a thing as absolute rent."

sense of the term if all the land in a country were the property of a single individual or of the State or of a number of individuals who had combined to regulate the supply in their common interests. Such a combination, though quite conceivable, is nowhere realized. And though land is seldom uniform in quality over an extensive area, yet its differences do not prevent competition among the owners. Hence rent is always more or less the measure of differential advantages. But it should be observed that absolute monopoly in the sense of a complete control over the means of satisfying a particular demand is very rare owing to the fact that substitutes are almost always available for the commodity which specially answers to it. Land, again, has some of the characteristics that distinguish objects which are generally said to yield a monopoly revenue. As it is a gift of nature, augmented demand can not bring into the market fresh dealers of the commodity. And even where it may be regarded as a manufactured commodity because it owes its peculiar excellence to capital, it is marked off from other manufactures by the fact that its owner is not constrained to offer it at a price which will just cover his outlay with normal profit, for though the prospect of normal profit may attract surplus capital from other quarters, yet the supply of land is limited on which the capital must be invested in order to earn it. His comparative independence in the matter of bargaining comes also from the circumstance that

land unlike other commodities must be enjoyed or utilized where it exists, so that if his terms appear unreasonable to the would-be tenant, the latter has to sacrifice many things which are more or less dear to him in order to avail himself of a more advantageous offer elsewhere. There can thus be no supply schedule for land like that for other instrumental or direct commodities, to match the demand schedule for it. And where it is scarce and is at the same time in great request, its owner does for the reasons just given control the supply and regulate its price in spite of the absence of combination between him and other land-owners.*

* Nicholson sums up Adam Smith's views on the subject in a manner that reveals their weakness as well as their merits. "No wonder," says he, "that Adam Smith, who above all was historical, concludes with the commentary: 'The rent of land, therefore, considered as the price paid for the use of land, is naturally a monopoly price'.........The use of the term 'monopoly' with such generality may not be exact, but it is suggestive of more of the true than the false. And such a usage seems strictly exact when the owners of the land could prevent their serfs and their children from leaving the bounds of the manor.........With the institution of money-rents, and the growth of freedom of movement for labour, the monopoly element.........becomes less and less. The rent paid for the occupancy of a portion of land falls to the surplus earned by the particular portion of land; in place of a monopoly rent it becomes a true competition rent. Just as monopoly rent is of all sorts the most burdensome, a pure economic rent is the least burdensome. With effective competition, labour and capital must obtain the average earnings available in the econo-

Adam Smith, however, draws a distinction where there is no difference when he says that the rent of land is unlike the value of other instrumental commodities in being limited only by the inability of the tenant to pay more. For the price which the mill-owner pays for his machinery is also the highest which he can afford to pay in the actual circumstances of his industry, as a higher price will raise the cost of producing his commodity above the value which the market can bear. The truth is that the demand for land as for any other instrument of production must be relative to the demand for what it produces, rising as the latter rises and declining when it falls. But an improvement in the

---

mic conditions of the time before anything is paid for rent: rent is only a deferred dividend; wages and profits are preferred. It sometimes happens, it is true, that excessive competition for land in effect gives the land-owners as much as they could exact on the monopoly system.........The earnings of labour and the upkeep of capital are then reduced by excessive competition to a necessary minimum." But what are we to understand by effective competition? Are not the conditions exceptional which would permit it to agricultural labour and capital? And if they are, does not the 'monopolization' of land exercise a depressing influence on wages and profits not only within the restricted field of farming but even in the general market for labour and capital? These are questions which have a peculiar significance wherever agriculture is the mainstay of a considerable portion of the population. But they are not fully discussed either by Adam Smith or his apologist.

demand for those instruments which are made by human labour is followed as a rule by a corresponding improvement in their supply, while a similar adjustment is often out of the question in the case of land, so that its value rises as the demand for it becomes more intense. Every enhancement, however, of its value is faithfully reflected in the prices of those things which it yields, and so is ultimately borne by the consumer. For if competition was effective before the change, the farmer must have been content with ordinary profit. And ordinary profit he must have even after the cost of production has risen owing to the appreciation of land. But augmented demand for other instruments does not punish the consumer in the same way, for competition assures their multiplication at generally speaking a uniform cost. The same competition, however, prevents the manufacturers of consumption goods from earning exceptional profits for any length of time even when there is an increased demand for their commodities. Thus though the price of their machinery does not rise in sympathy with the demand, yet it is the highest price which they can afford to pay even when there is an expansion of the market for their products.

The preceding criticism is based, of course, on the assumption that rent enters into the prices of the commodities, which are obtained from land. That such was Adam Smith's opinion is clear from a number of passages. He says, for instance, that the labourer has to pay even for the license to use the

wood of the forest and the grass of the field after land has been appropriated, and that rent is in consequence a component part of the prices of those articles. And he observes that it figures also in the prices of manufactures in so far as it is a determining factor of the prices of the raw materials that are used up in them. A few exceptions are noticed, indeed ; but they prove the rule instead of invalidating it. It is pointed out, for example, that in some parts of Scotland a few poor people earn their livelihood by picking up along the sea-coast little variegated stones known as Scotch pebbles. The price which they get for their collections is just sufficient for their maintenance, and so they are not in a position to pay anything to the landlord as rent. But the mere fact of monopoly cannot give a price to the monopolized article, the ultimate determinant in this respect being the degree of its utility or as in the present case the intensity of the demand for the commodities which it supplies. If landlords have a certain extent of unprofitable land on their hands, humanity or a desire for cheap popularity or political influence may lead them to allow poor people to make a living out of it. So the fact that rent does not enter into the price of Scotch pebbles and of certain other things for which the demand is equally insignificant, does not affect his position that it is the price of a monopoly and that "in every improved society it is an element in the cost of production of the far greater number of commodities."

Adam Smith is convinced, however, that the rent of land is a 'component part' of the price of its produce in a different sense from the wages and profits of those who work it. "Such parts only", says he, "of the produce of land can commonly be brought to market, of which the ordinary price is sufficient to replace the stock, which might be employed in bringing them thither, together with its ordinary profits. If the ordinary price is more than this, the surplus part of it will naturally go to the rent of the land. If it is not more, though the commodity may be brought to market, it can afford no rent to the landlord." And speaking of wages and profits in this connection, he observes that though high or low wages and profit are the causes of high or low price, high or low rent is only the effect of it, "It is because high or low wages and profit must be paid, in order to bring a particular commodity to market, that its price is high or low. But it is because its price is high or low, a great deal more or very little more or no more than what is sufficient to pay those wages and profit, that it affords a high rent or a low rent or no rent at all."* Wages and profits, there-

* Adam Smith attaches undue importance to apparent exceptions when he makes this statement. But to controvert it, it is not even necessary to point out that his interpretation is wrong. Facts, to which attention have been since drawn, are against him. In Australia rents have, it is said, raised prices. In India, the land revenue is universal and so is a factor in price-making. And there are good reasons for classing it as rent or 'the price paid for the use of land.'

fore, cannot be dependent on it ; and when Adam Smith inveighs against the present system on the ground that the labourer, if not the farmer, is starved under it, all that he can mean is that the labourer will be much better off if he owns the land which he tills and so can appropriate what is now claimed by the landlord. Here certainly he is on strong ground ; but his analysis is not carried far enough when he concludes that wages and profits are the determinants of price, while rent is merely an incident of it. For not only do labour and capital owe their value in a general way to the circumstance that they produce commodities which are in request, but even their different varieties have their respective values assigned to them in the last resort by the relative intensity and volume of the demand for these commodities.* Adam Smith does not, indeed,

* In discussing this subject in the article on 'Value' in the 11th. edition of the *Enc. Brit.*, the writer fails to give due prominence to the influence of the demand. Are we to consider, he asks, that the prices of commodities are determined by wages and profits, or are these determined by the former? "If, for example, commodity A sells for twice as much as commodity B, are we to say that this is because wages are higher in the former case, or are the wages higher because the price is higher?" And his answer is that "industrial competition has established certain relative rates of wages and profits in various employments, and that any prices of articles which yielded more than these rates, whilst in other cases no corresponding rise took place, would be unstable." Hence, according to this writer, the normal values of freely produced

repudiate these commonplaces of economics. But in his anxiety to emphasize the element of truth that there is in the cost of production theory, he loses sight of the obvious consideration that if wages and profits are inevitable elements of the price of the produce of land, because the labour and capital that work it must be paid for, there is a similar inevitableness about the payment of rent as there is no reason why those who own it should turn it to account or allow others to do so unless they can get something in return for its use. That they have not created it does not matter. It has value because it is ecnomically scarce, and economic scarcity, however it may arise is, after all, the ultimate cause and measure of the value of all sorts of utilities.

Adam Smith does not offer this simple explanation of rent, when he observes that a net produce is obtained in agriculture which is unique in character and which neither the farmer nor the labourers whom he employs can lay a claim to. His adherence, however, to this doctrine is another proof of his conviction that rent is not a deduction from wages or profits. "In agriculture," says he, "nature labours along with man ; and though her labour costs no

---

commodities are obtained by multiplying the quantities of labour and capital used up in them by the established rates of wages and profits. This is correct so far as it goes. But it does not bring out the point that industrial competition is carried on under the controlling influence of the relative demand for different commodities.

expense, its produce has its value, as well as that of the most expensive workmen." In consequence of this co-operation, farm-hands are able not only to reproduce like the operatives in a manufactory the stock which employs them with ordinary profits thereon, but also to create a surplus value, which must be set down not to their industry or intelligence nor to the ability with which the function of co-ordinating capital and labour is performed by their employer, but to the productive power of nature. "Over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord.* This rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer." It is thus a gift, which the course of human history permits him to lay an exclusive claim to. This arrangement, however, does not deprive any section of the community of its dues, as capital and labour

* Turgot expresses himself in much the same way on the subject. "Thus", says he, "although neither the cultivator nor the artisan gains more than the recompense of his labour, the cultivator causes, over and above that recompense, the revenue of the Proprietor to come into existence; and the artisan causes no revenue to come into existence either for himself or for others."

How far Adam Smith was influenced by Turgot, it is difficult to say. But there can be no doubt that the economic thought of both was dominated in certain important respects by the fundamental Physiocratic ideas.

get all that they produce and so can legitimately demand for themselves, though there would, of course, be a greater incentive to production and a greater ability for it if rent remained with the producers.

Here do we find the key to Adam Smith's doctrine that there is a natural rate of rent, though when he comes to define it, his good sense leads him to interpret it as the usual or ordinary rate. It also serves to explain why he should regard the consideration paid for the best vine lands as a deviation more or less permanent from the natural rate, and assert on the other hand that where profits are very high, they "eat up the whole of what *should* go to the rent of land." His analysis of the cost of production leads him to conclude that rent is an incident of the price of the produce or to put it more clearly, of the intensity and volume of the demand for it But when he applies himself to the study of agricultural conditions,—a study which does not properly belong to the economist, he hazards the opinion that "the work of nature which remains after deducting or compensating everything which can be regarded as the work of man, is seldom less than a fourth and frequently more than a third of the whole produce." So the active fertility of the soil makes a present to the community of wealth which can in no sense be attributed to human industry, so that even when the whole of it is absorbed by the landlords, no party suffers by such an appropriation, while the commu-

nity as a whole is richer by its amount. Adam Smith views, therefore, with perfect complacence the steady rise in agricultural prices in progressive countries, especially as it ensures 'the extension of improvement and cultivation' and thus an increasing exploitation of the active fertility of the soil. But in doing so he ignores the obvious consideration that what the landlords gain by such a rise may be completely set off by the consumers' loss. A levelling up of prices is, indeed, inevitable in certain circumstances, and it may be taken as a satisfactory proof and measure of advance where it is the consequence not merely of intensified demand but also of an increased ability to pay. But even then it is not 'the greatest of all public advantages,' if, as he holds, the entire benefit of it is reaped by landlords, while consumers find their means of gratifying their wants curtailed as a result of it.

Adam Smith took the theory of surplus value or net produce from the Physiocrats probably because it seemed to him to account for the emergence of three different classes of revenue in agriculture, while wages and profits exhaust all the wealth produced in industry. "As a marriage which affords three children is certainly more productive than one which affords only two; so the labour of farmers and country labourers is certainly more productive than that of merchants, artificers and manufacturers." There is, however, as McCulloch observes, not the slightest reason for asserting that in manufactures

nature does nothing for man. The services rendered to industry by the powers of wind and water are not less important than those which have to be set down to the fertility of the soil in agriculture. The real difference lies in the fact that while the forces of wind and water are unlimited and unappropriated and so are not paid for, rent has to be paid to the landlord, because he has appropriated the soil to the exclusion of others. Land thus so far as it is property resembles in an important respect those instrumental commodities which are the creation of human labour. These are paid for because the persons who make or own them would not part with possession without a consideration, and commodities which might serve the same purpose are not freely supplied by nature. Land similarly has a price in the market, because it can be had only of those who have appropriated it, while there is nothing else in nature which may serve as a substitute for it. The rent of land is, it is true, spoken of as a separable income even where landlordism is unknown. But the annual value of any other instrumental commodity may with equal propriety be described as a revenue easily marked off from rent and wages even where the man who owns it owns also the land on which it is set up and works it by his own labour. And in either case this income is a surplus value or a net produce, or to put it in Clark's words, "it is what the industry would lose outright if that instrument were taken away." But this surplus value corresponds to the

cost of production where the instrument which earns it is made by man, while in the case of land, it is only a measure of the intensity and volume of the demand and of the limitation of the supply. Hence while an increased employment of the former may have no perceptible influence on its value, land appreciates with every increase in the demand for it and without any effort or sacrifice on the part of its owner. His income is, therefore, set down to a mysterious power possessed by land of yielding something in addition to what may be attributed to capital and labour. But this power is no more mysterious or unique than is the capacity of other instrumental commodities of producing something which could not be obtained without their co-operation. And in both the cases the value which they command is due to their utility and to the circumstance that they are economically rare. The scarcity, however, of the reproducible instruments is, as already observed, limited by the cost of their production, whereas that of land recognizes no such limits, since if a person has in his possession a certain extent of land, there must be so much less land for others to utilize for their purposes. Hence even if the contribution of nature were a definite and measurable portion of the total produce of land, there might be no correspondence between it and the rent which the landlord is able to exact under varying conditions of demand.

But Adam Smith's theory of rent does not stand or fall with the doctrine of surplus value to which he

lent his support. And the connection only serves to show how convinced he was that rent, whatever its amount might be, is not in any sense a deduction from legitimate wages or the normal rate of profits. His views on the subject, put briefly, are that rent is the result of monopoly, that it enters into the price of every important article in a civilized community and that its amount is fixed with reference to the average value of the produce and the farmer's estimate of the cost of obtaining and marketing it on the basis of the current rates of wages and profits. But since his anticipations are often belied owing to fluctuations in prices, his profit and wages do not maintain an uniform level from year to year. Rent, however, is not affected by these 'occasional and temporary fluctuations, for in settling the terms of the lease, the landlord and farmer endeavour according to their best judgment' to eliminate the element of uncertainty by taking the average value of the produce for a number of years.

Rent thus is, generally speaking, above the reach of those vicissitudes of agricultural prices that alternately paralyze and encourage capital and labour. At the same time, it never fails to rise wherever there is extension of cultivation or a sustained upward movement of prices. And even when there is a setback, though rent shrinks, yet since it is the price of a gift of nature, its recipients do not suffer so cruelly as those who earn their subsistence by the sweat of their brow. Such are the findings of Adam

Smith, and he has no quarrel with the course of progress as indicated by him, because the levelling up of prices of all kinds of agricultural produce and 'the complete improvement and cultivation of land are', in his opinion, 'the greatest of all public advantages.' But the chequered history of real wages and profits when contrasted with the steady increase in progressive countries of the income of the landlords naturally leads one to ask if there is sufficient justification for the position of advantage which they hold as compared with people who are actively engaged in industry. And a satisfactory answer cannot be given to this question without enquiring how far business ability and labour and especially the latter have been handicapped in their effort to secure the best terms by the concentration of that which is the instrumental commodity par excellence in the hands of a leisured class.

There are, as already observed, scores of passages in *The Wealth of Nations*, which lend themselves to the interpretation that wage-earners are injured by the position of advantage which is occupied by landlords and capitalist employers. The implication is due to the special stress that Adam Smith lays sometimes on the doctrine that all economic wealth is the product of human labour. This it, no doubt, is with one important reservation, for labour creates only those utilities that are not provided by nature. Still labourers can have no indefeasible right to appropriate all that they produce

where they must depend on others for their maintenance and efficiency. This dependence, however, is an outcome of social and economic evolution in special circumstances and not a typical feature of human society under the most divergent conditions of time, place and civilization. The question, therefore, arises how far it is consistent with the principles of justice and to what extent it has assisted in the production of wealth. Adam Smith, however, does not seriously take up this contentious subject; and his casual observations on it do not fit together so well as to spell out into a well-grounded and thoroughly consistent opinion on the merits of the system. He says, for instance, that since the labourers cannot wait for the fruition of their labours, a portion of all the wealth that they produce belongs of right to the man who feeds, clothes and shelters them, while the things that they are engaged in making are ripening into utilities. In fact, no one seems to be more alive than Adam Smith to the truth that except in primitive communities in which the value of a commodity is determined by the amount of labour embodied in it, the profit of the owners of stock enters naturally into the cost of its production. "Their labour", says he, "when properly directed, fixes and realizes itself in the subject or vendible commodity upon which it is bestowed, and generally adds to its price the value at least of their own maintenance and consumption." Adam Smith is certainly far enough here from implying that in the present scheme of

economic organization, labour gets less than its natural price or capital absorbs more than what is due to it.* But he dwells elsewhere with considerable bitterness on the antagonism between capital and labour, and by some of his utterances, conveys the impression that capital is not slow to take advantage of favourable circumstances for the purpose of mulcting labour. And what gives character to his criticism is his conviction that the well-being of society is more intimately bound up with the prosperity of the wage-earner than with that of the capitalist, so that if the former earns less, it is not because he is less useful than his employer,

---

* J. S. N. is not quite fair to Adam Smith, when he observes that two views on wages are combined in *The Wealth of Nations*, which were subsequently differentiated into antagonism. One of these is that 'the produce of labour constitutes the natural recompense or wages of labour,' while the other, *viz.*, that wages cannot increase but in proportion to the increase of the funds which are destined for its payment, is, as he truly remarks, the germ of the celebrated wages-fund theory. But that Adam Smith was quite alive to their difference, appears from his apology for discussing only one of them at length. His words are:—"But this original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock. It was at an end, therefore, long before the most considerable improvements were made in the productive powers of labour, and it would be to no purpose to trace further what might have been its effects upon the recompense or wages of labour."

but because he is less fitted for an intelligent and practical appreciation of the economic forces and conditions that are at work. But as these forces and conditions are not irreducible elements in the scheme of human society, the question still remains, whether it is desirable to continue a system of which they form an integral part, when their influence gives an undue advantage to a certain class in the matter of bargaining. Adam Smith does not attempt to answer it, nor does he say that the concentration of stock had its origin in the exploitation of labour. His reticence, however, on these points cannot be justified on the ground that the subject belongs to the difficult and debatable border-land between moral philosophy and economic politics. For when he deprecates the present system because it condemns the labourer to hopeless poverty, he should have shown at least that the disappearance of the capitalist and the entrepreneur from the field would not be attended by such a decrease in production as might neutralize the advantage to labour in being able to retain for itself the entire fruits of industry.* This

* Cannan says in his *Theories of Production and Distribution* that 'it probably never occurred to Adam Smith to speculate as to the possibility of society existing and enjoying necessaries, conveniences and amusements without separate property,' that 'separate property was to him a natural institution.' This, no doubt, is correct; but it is beside the point so far as the present discussion is concerned, as the relevant question here is whether the *concentration* of stock and the

he does not do, though he lends his authority to the dictum that if there had been no concentration of stock, "the wages of labour would have augmented with all those improvements in its productive powers to which the division of labour gives occasion". It is obvious, however, that in making a statement like this, he ignores the fact that all progress in the direction of division of labour involves a corresponding perfection of the machinery for coordinating different kinds of capital and labour, and so must be contingent on the energy and enterprise of capitalists and entrepreneurs.*

---

consequent differentiation of functions are inevitable. Adam Smith gives nowhere a satisfactory or even definite answer to it.

* Adam Smith recognizes that a considerable accumulation of stock is a condition of division of labour and, therefore, of industrial efficiency. But is this stock likely to be effective, if instead of being concentrated in the hands of a few persons, it is divided among all the workers? *The Wealth of Nations* offers no answer to such a question, though its author's bias against traders and employers of labour makes him deplore the concentration of capital. He is quite explicit, however, on the need of its accumulation. His words are :—"But when the division of labour has once been thoroughly introduced, the produce of a man's own labour can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other men's labour, which he purchases with the produce, or, what is the same thing, with the price of the produce of his own. But this purchase cannot be made till such time as the produce of his own labour

But the case for or against landlords,—for it is not clear at once for whom exactly he holds the brief, stands on a different footing. He traces the concentration of real property in England and elsewhere to its appropriation by the chiefs of the barbarian hordes that overran the Roman empire and to the devices adopted by their descendants for preventing its diffusion among the people. This initial act of usurpation and its perpetuation at the cost of the community by means of entails and settlements serve to differentiate landlordism from the concentration

---

has not only been completed but sold. A stock of goods of different kinds, therefore, must be stored up somewhere sufficient to maintain him and to supply him with the materials and tools of his work, till such time, at least as both these events can be brought about."—*The Wealth of Nations,* edited by Cannan. Vol. I. Page 258.

It must be clear from the above that Adam Smith does not regard profit as a derivative source of revenue. So his position is not quite as untenable as it appears to Cannan when he quotes Lauderdale with approval to point out that profit often arises 'because the capital which yields the profit supplements labour or does what human labour could not do.' Nor is he effectively met by Clark's observation that in modern life as well as in the primitive 'the identity of wages with the product of labour is in a general and approximate way maintained,' though the entire joint product of labour and capital does not go to the labourer. There are, indeed, isolated passages in the 'Wealth of Nations,' which support the view that profits are not original sources of revenue but deductions from wages. But all that its author seems to have implied is that the best arrangement is that in which the wages of labour and profits of capital are earned by the same persons.

of stock and to justify the charge that the landlords "reap where they did not sow." Besides, Adam Smith is of opinion that proprietors of vast estates are disqualified by their training and circumstances for the work of improving the land* and that it receives the best and most profitable treatment when the occupier is also the proprietor. Landlordism, therefore, has a twofold indictment to answer, *viz*, that its genesis is to be found in dishonesty and violence, and that its continuance stands in the way of obtaining the maximum utility from the land, however advantageous it may be to a particular class. So both justice and expediency seem to demand that it should not figure in the programme of the future.

It may be thought, however, that Adam Smith not only stops short of the legitimate conclusion from his premises, but introduces a number of considerations that rob his arguments against the divorce of ownership from occupancy of half their force. He says, indeed, that wherever there is free competition, there can be no question of rents being excessive or of their absorbing what in fairness ought to go to labour. Thus if they are high, it is because economic conditions make high rents natural at the time, just as

* "To improve land with profit, like all other commercial projects, requires an exact attention to small savings and small gains, of which a man born to a great fortune, even though naturally frugal, is very seldom capable."—*The Wealth of Nations*, edited by Cannan, Vol. I. Page 363.

they prescribe a low limit to the farmer's or wage-earner's remuneration, the two phenomena being like the concave and convex sides of a mirror, only different aspects of the situation brought about by a relative scarcity of land and of lines of employment more remunerative than farming. But considerations like these have nothing to do with the issue involved, which is not whether competition assures an equitable division of the national income between landlords and others, but whether there should be any such division at all in view of the fact that the landlords render no real service to the community. And on this question, Adam Smith has very little to say in refutation of his own charges against the system though there is no hesitation on his part to face all the facts that have a bearing on it. Political Economy as a positive science might indeed have avoided the question altogether, for it aims simply at the discovery of the nature and causes of economic facts viewed as types. But this plea was not open to Adam Smith ; for in his great work the line is not clearly drawn between the principles that recognize the interdependence of different classes in the modern scheme of social production and the reforms which question that interdependence on grounds of justice and expediency. So we find him treating the subject from two different standpoints and arriving at conclusions which seem to run counter to one another. But the conflict puzzles and misleads us only if it is not borne

in mind that in certain portions of his work, he confines himself to considerations that fall within the scope of Political Economy in the narrower sense, while in others his outlook is broader and there is a searching examination of that very institution which is regarded as a typical fact by positive science. It may, for instance, be supposed that he constitutes himself into a champion of the economic *status quo* when he says that "the interest of the landlords is strictly and inseparably connected with the general interest of the society," and that therefore, "they can never mislead it with a view to promote the interest of their own particular order." But he observes at the same time that farming can never be very energetic, where the man who works the land is not also its owner.* And he does not realize the need of reconciling it with the other state-

* "The farmer, compared with the Proprietor, is as a merchant who trades with borrowed money compared with one who trades with his own. The stock of both may improve, but that of the one, with only equal good conduct, must always improve more slowly than that of the other, on account of the large share of the profits which is consumed by the interest of the loan. The lands cultivated by the farmer must, in the same manner, with only equal good conduct, be improved more slowly than those cultivated by the Proprietor, on account of the large share of the produce which is consumed in the rent, and which, had the farmer been Proprietor, he might have employed in the further improvement of the land."—*The Wealth of Nations,* edited by Cannan. Vol. I. Page 369.

ment, because in that he simply calls attention to the observed fact that the increase of national wealth benefits the landlord while he is injured by its decline. Similarly, there is only a seeming inconsistency when he condemns 'the engrossing of land' by a leisured class and yet holds that the interest of the landlords coincides with that of labour, for all that he means by it is that rent and wages move up when there is an extension of cultivation or a rise in prices while both of them decline when contrary conditions prevail.

It appears, therefore, that Adam Smith gives his verdict against landlordism though his verdict is not sufficiently clear.* Where, however, landlordism is a permanent institution, the conditions which govern the distribution of wealth establish, according to him, a sort of harmony between the interest of the landlord and that of the wage-earner. Nevertheless, this harmony does not completely over-ride the antagonism that there is between them as sharers in the national dividend. It may be said, indeed, that as the abolition of exten-

* The following estimate of the work of Adam Smith in the 9th. Edition of the *Enc. Brit.* has a special appropriateness in connection with his attitude on the present question :—

"As a theoretic treatise of social economy, and therefore as a guide to social reconstruction and practice in the future, it is provisional, not definitive. But here too it has rendered eminent service : it has established many truths and dissipated many obstinate prejudices; it has raised the views of all thinking men on national wealth to a higher level."

sive properties can not efface rent or the residual share which represents the value of land as an instrumental commodity, its absorption by a class which is not directly engaged in production cannot affect the rates of wages and profits. And Adam Smith's remarks on the subject point, no doubt, to the conclusion that rents are not higher than what they are to-day because the level of agricultural prices and of wages and profits prevents such an increase.* Still there is much to be said in favour of those who contend that the level of wages would rise not merely in agriculture but in every other industry were the position of the labourers strengthened by a wide diffusion of landed property among them. And this is probably what Adam Smith suggests when he observes that the landlord has an obvious 'advantage in the dispute' which secures for him a terrific success.†

* There is some truth in Cannan's observation that Adam Smith's theory of distribution is tacked on to his theory of prices and so occupies a comparatively subordinate place in his work. The chapter on the natural and market price of commodities is, as he says, succeeded by the chapters on wages, profit and rent, 'not because it is interesting to know how the produce is distributed between labourers, capitalists and landlords, but because wages and profit are causes, and rent an effect, of the prices of commodities.'

† Compare what Richard Jones says on the subject :—

"While the position of a large proportion of the population of the earth continues to be, what it has ever yet been, such as to oblige them to extract their own food with their

There is, as already observed, only an apparent inconsistency between Adam Smith's statement that rent is essentially a monopoly price and the observation that the price of the produce determines whether the land on which it is raised should pay any rent at all. The mere fact of monopoly or rather appropriation does not invest the object of it with value ; for value is the creation of utility and scarcity. The monopolist tries, it is true, to influence value by creating a scarcity ; but however scarce a thing may be, its value or, in other words, the sacrifice demanded in return for it cannot outweigh the advantage which the buyer promises to himself from its possession. And this advantage is determined in the case of an instrument of production by the value of its product. If, therefore, the value is such as just to remunerate the labour and capital required

---

own hands from its bosom; the forms and conditions of peasant tenure, and the nature of the rents paid under them, will necessarily exercise a leading influence on the condition of the labouring classes and on the real wages of their labour."—*Peasant Rents*, edited by Ashley. Page 141.

Adam Smith is not far from this view, when he says that "as soon as the land of any country has all become private property.........the wood of the forest, the grass of the field, and all the natural fruits of the earth, which when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them.' But his doctrines that rent is a surplus and that the landlord is a residual claimant prevented him from examining in detail the effects of the 'monopoly.'

for working the instrument, the latter will not command a price in spite of the fact that it has been appropriated by a class which may not share in the revenue that will go to capital and labour. It is open, of course, to this class to refuse to allow others to use it and the permission is likely to be withheld if only the economic motive rules. Nothing, however. is gained by such a prohibition, unless it succeeds in creating a surplus by indirectly limiting the supply of the produce and thus raising its price. There are, no doubt, circumstances in which such a corrective measure tells and is adopted by the landlord. And Adam Smith admits as much when he says that if rent falls below the natural rate, the self-interest of the proprietors immediately "prompts them to withdraw a part of their lands." But in some of the cases referred to by Adam Smith, the demand for the commodities is so inelastic and insignificant as to render abortive all remedial action on the part of the landlords. Yet if their production is to be on business lines, their price must include wages and even profits, but may not include rent if landlords are disposed to be indulgent. He is thus led to observe, though somewhat inaccurately, that rent in spite of its being 'the price of a monopoly' does not enter into the price of commodities in the same way as these.

It is, indeed, clear from what he says that rent emerges only when the appropriation of land is accompanied by a certain intensity of demand for

it. But as land is put to a number of uses all of which are not equally important or urgent, the demand for different grades of it is regulated by the relative utility of the commodities which they are respectively fitted to yield. Their utility, however, varies from time to time ; and with every such variation, the value of the lands from which they are obtained increases or declines. So Adam Smith takes up an untenable position when he says that certain kinds of produce yield an income to the landlord, which is independent of the conditions of supply and of the comparative intensity of the demand for other commodities. They are thus marked off from other things, whose capacity for affording a rent is, according to Adam Smith, tied down to special conditions of trade, prosperity and population. We shall presently see that there is no good reason for classifying rural produce under two heads on this principle, and that the so-called rent-producing power is conditioned in each case by the state of the demand and the supply. But it is possible to account for Adam Smith's partiality to this principle of classification, which has puzzled so many of his readers. He is pledged to the doctrine that rent or surplus value is the free gift of nature in the primary industries. And yet he has to face the rebellious fact that rent cannot be always exacted from those who work the land or collect its fruits. He cannot attribute it to the sterility of nature, nor can he ignore it in an etiological study of the subject, especially

as it seems to indicate a radical distinction between rent on the one hand and wages and profits on the other. So he seeks to account for it by setting off the comparative inelasticity of the demand for other commodities against a mysterious virtue supposed to reside in articles of food of creating an effective demand for the total supply whatever it may be. "Countries," says he, "are populous not in proportion to the number of people whom their produce can clothe and lodge, but in proportion to that of those whom it can feed." But it is a dogma which is reminiscent of the days in which every nation had to depend on its own resources for the necessary food supply while deficiencies in building materials and articles of clothing were sometimes made up by foreign trade. And it was out of date, even in Adam Smith's time as it did not square with the experience of certain rich and commercial States to which Adam Smith expressly refers. The deflection of interest and attention to a fancied difference in the nature of the demand for the two classes of rural produce must, therefore, be ascribed to the obsession of a favourite theory, which blinds him to the weakness of his position.

Let us examine this position a little more closely. "There are," says Adam Smith, "some parts of the produce of land for which the demand must always be such as to afford a greater price than what is sufficient to bring them to market ; and there are others for which it either may or may not be such as to

afford the greater price. The former must always afford a rent to the landlord. The latter sometimes may and sometimes may not, according to different circumstances." As examples of the latter are mentioned building materials and fire-wood, which are collected by people in various parts of the world without payment of rent. But as Adam Smith himself observes, the consequent disafforestation is sometimes a service rendered to the landlord, who is thus saved the expense of the first step towards the reclamation of the land. Elsewhere the sufferance is due either to imperfect appropriation by the landlord or to the circumstance that the tenants are too poor to pay for fuel or materials of houses in addition to what they pay for the lands that they cultivate, so that the right to take them from his woods is implied in the terms under which they hold, and the rent which they pay is consideration for this privilege as well as for the possession of the arable lands, as without such an indulgence, the landlord's estate might not have been occupied at all in the circumstances contemplated by Adam Smith. So the cases are very similar to those in which the landlord in leasing out lands also allows right of way over what remains his own or permits his tenants to draw water for irrigation without charging for it

* Cannan says that as rent is, according to Adam Smith, an incident of price, he naturally tries to mark out the commodities which always command a price high enough to yield a rent.

in places where water is scarce. It appears, therefore, that Adam Smith has overlooked certain important aspects of the relation between landlord and tenants in the cases on which he bases his statement that fire-wood and building materials do not always yield a rent to the landlord.

Human food is, according to him, the only produce which always and necessarily affords some rent. His argument in support of this view is that "as men, like all other animals, naturally multiply in proportion to the means of their subsistence," food is always more or less in demand. Here an empirical generalization, so loosely expressed as to be positively misleading, has been elevated to the rank of a scientific law of universal applicability. Men do not always multiply in proportion to the means of subsistence, if by 'means of subsistence' we are to understand food crops alone. But supposing they do, it would be preposterous to assert that the correspondence is immediately established, so that if a notable improvement enables a country to raise twice the amount of foodstuffs on the land already under cultivation, its population would be doubled at once to absorb without difficulty the increased yield. The phenomenon is, in fact, not of rare occurrence, of a fall in agricultural prices so serious as not only to wipe out the rent of inferior lands but also to cut down wages and profits. Such a thing happens only because the demand does not immediately respond to the augmented supply. But even

if a perfect and perpetual correspondence between the two were taken for granted, it is difficult to see how a surplus for the appropriation of the landlord would necessarily make its appearance. Adam Smith states it as a fact testified to by the experience of countries in widely different stages of industrial progress. And as a fact, there is little to be said against it. But he seems to suggest also that owing to the nature of the demand for food, a man has only to take up a certain extent of land and to devote it to food crops, to be able to pay rent after repaying himself for the cost of cultivation. This is certainly incorrect, and the experience of Great Britain in the latter half of the nineteenth century was a significant comment on Adam Smith's optimistic conclusion. Food, no doubt, is the first necessary of life ; but the question of interest for us is,—how much of it can be disposed of at a price which will remunerate all the three classes that are directly interested in agriculture. And in answering this question, we have to take into account the fact that the demand for it is inelastic beyond a certain limit and that even before this limit is reached, the demand for other things may become so intense in comparison as to render further application of capital and labour to the production of food a relatively unprofitable business. Adam Smith ignores this important consideration when he says that land in almost any situation produces more food than what is required for adequately remunerating the farmer for his capital

and labour. His own example of Holland shows that the production of grass was found to be more profitable than that of corn and so replaced it. If some commercial crop had proved even more lucrative, the production of grass would have been similarly abandoned in its favour, and the attempt to revert to the cultivation of corn would have been quite out of the question, as it could not have yielded the same amount of wages, profit and rent. Adam Smith speaks of the ability of 'the most desert moors in Norway and Scotland', to produce wealth enough for meeting the legitimate claims of landlord, farmer and labourer. But they would have failed to do so, if more lucrative industries than cattle-rearing had put up the rates of profit and wages and made the people familiar with a higher standard of comfort.

Mineral wealth is another class of commodities which do not, according to our author, always yield a rent. And it is interesting, therefore, to compare the conditions under which they are obtained with those that govern the production of corn. Adam Smith observes with perfect truth that the competition of the richest coal-mines prevents the exploitation of those which are very inferior, while it cuts down the income from others to an extent that leaves no margin for the payment of rent. But he is also of the opinion that competition can have no such restrictive influence on the field of agricultural industry and especially of that which provides food for man. This is quite in keeping with the erroneous

theory which has been just noticed, viz. that "land in almost any situation produces a greater quantity of food than what is sufficient to maintain all the labour that is necessary for bringing it to market in the most liberal way in which that labour is ever maintained." And it accords with the curious doctrine that the value of corn remains unchanged in spite of changing conditions, owing to the circumstance that in a progressive community the continually increasing price of cattle which is the principal instrument of agriculture, counterbalances any gain that may be due to an increase in the efficiency of labour. This argument, however, has lost whatever weight it might have once possessed, as the extended use of machinery and artificial manure in the most advanced countries seems to indicate that the future of agriculture may be less dependent on a plentiful supply of live-stock than it was once belived to be. But the view that foodstuffs are even less variable in their value than the precious metals finds additional support in the doctrine already noticed that an over-production of them is an impossibility. "Food," says Adam Smith, "not only constitutes the principal part of the riches of the world, but it is the abundance of food which gives the principal part of their value to many other sorts of riches." It does not occur to him at the same time that the surplus food in the hands of agriculturists derives all its value from the abundance or availability of other kinds of wealth. In fact, his

observations on this subject as well as on the effect of improvements on cultivation constitute an attempt under the lead of the Physiocrats to rehabilitate agriculture by convincing the sophisticated world of its vital importance. And their inconsequential character with reference to the question at issue must be manifest to every one who does not shut his eyes to the patent inequalities of different lands in accessibility and productiveness. Even where there is a general divorce of ownership from occupation, corn lands may be found which are worked by their proprietors, because they are too poor to pay a rent, though their yield is sufficient to cover the cost of cultivation and ordinary profits thereon. Lands of this description may be classed with the inferior coal mines which, Adam Smith says, are worked by their owners because they will not permit any body else to exploit their mineral resources 'without paying some rent and nobody can afford to pay any.' There is therefore, no good reason for placing corn lands in a different category so far as their capacity for yielding a rent is concerned. Adam Smith takes it for granted that old corn fields never pass out of employment in the same way as old mines sometimes do owing to the discovery of new mines of superior fertility. But this is hardly correct, for a shrinkage of the area under corn does take place when foreign trade or the adoption of improved processes enables a country to get the necessary supply of food from a smaller area. Such a shrink-

age, however, does not always attract notice like the abandonment of old mines, because the land which ceases to grow corn is often devoted to some other purpose. And it is probably a change of this sort in the method of utilization that Adam Smith has in view when he says that "the value of the most barren lands is not diminished by the neighbourhood of the most fertile, but is on the contrary generally enhanced by it, as the great number of people maintained by the fertile lands afford a market to many parts of the produce of the barren, which they could never have found among those whom their own produce would maintain." There is, however, no real competition between the cultivators of the two kinds of land as there is between the workers of new and old mines, so that the case does not prove Adam Smith's contention that lands which are fitted for the growth of corn have only to be cultivated in order to yield a rent.

His statement that those who raise food on land belonging to others are always able to pay rent is correct so far as it is a statement of a fact in a country the entire land of which has been monopolised ; but it is correct only because if there is any land capable of bearing food crops, but not capable of paying a rent, it will not be under cultivation. Still there remains the distinction that those who grow food crops pay rent everywhere, while those who exploit 'unimproved wilds' for the materials of houses and clothes are often allowed to do so without being

required to pay any consideration for the permission. This is, however, due to a certain extent to the circumstance that to raise food crops the land has to be appropriated in a much fuller sense than land from which poor peasants gather their fuel or timber for building. In fact, the question of rent in the proper sense of the term does not arise in the latter case, in which, strictly speaking, a supply of raw materials greatly in excess of the demand fails to fetch any price. But even if this difference in the character of the industries is ignored, there is another reason for the difference in the treatment which they seem to receive at the hands of landlords. The number of men who earn their livelihood by growing corn is so large and the art of growing it is so widely known and requires so little of special skill, while the demand for it is so extensive and urgent that there is always a considerable competition for corn land, which enables the landlord to leave his tenants "no greater share of the produce than what is sufficient to keep up his stock and give him the ordinary profits of farming." But these are features of an advanced stage of agriculture, and it is quite conceivable that rent would not be demanded for corn lands, if cultivation were sporadic and not particularly profitable. The wood-cutter's trade is still in this state in undeveloped tracts as he cannot make a living out of it if the owner of the wood is so unreasonable as to demand a rent from him. It appears, therefore, that Adam Smith compares indus-

tries in different grades of evolution and ignores the intrusion of non-economic motives in order to make out his case. A similar distribution of income is, in fact, bound to appear in all of them as soon as they are governed by similar conditions of production. For instance, when the demand for fire-wood or timber improves so far as to induce a number of men to make a regular business of supplying it in the expectation of earning usual profits and wages, even unimproved wilds begin to pay rent, and this rent may in certain circumstances exceed that of corn lands. The legitimate inference, therefore, is that it is neither the limitation of the supply nor the use to which it may be put that enables the landlord to exact a price for his commodity. The limitation is there as soon as the land has been appropriated; but its value depends on the volume and intensity of the demand for it, which again are conditioned by the state of the market for its produce.

The supposed immunity of corn-growers from the risk of over-production is, therefore, a myth like the superior productiveness of husbandry as compared with manufacture and commerce. These doctrines are the most vulnerable points in Adam Smith's theory of rent; but they are not essential features of it, though they have served to obscure the real strength of his central position. Adam Smith's contributions to this branch of economics have in fact been underrated by critics. He paved the way for a systematic and useful enquiry into the

nature and causes of rent by consistently using the term in a sense which corresponds to a familiar economic phenomenon and so has found general acceptance. His definition is true also to the history of the phenomenon, much truer in fact than Ricardo's conjectural account of its origin, for competition rent is said to have been first exacted from outcasts or strangers in blood, who could have no sort of claim to the tribal possessions and so were entirely at the mercy of the appropriators. It has since been defined as the differential return obtained from superior lands and again as the annual value of the productive powers supposed to be inherent in the soil. A good deal of abstract thinking bearing only a distant relation to the realities of life has followed in the wake of this unwarranted nicety in the use of the term, and even practical agreement has been disguised under apparently conflicting conclusions owing to the adoption of an elusive and sterile definition like the last. All this might have been avoided to a great extent if Adam Smith's use of the term had been rigorously adhered to. To him belongs also the credit of having pointed out with iterated emphasis that rent is a monopoly price, and tends as such to be as high as the tenant can afford to pay in the actual circumstances of the land. But even more important, though not absolutely correct, is his contention that rent is a residual share, so that there is not much to be said in favour of those who consider landlordism to be an useful institution and

yet complain that the present economic interdependence of the different social classes confers a preponderating influence on the landlords. His guidance, however, ceases to be steady and unerring when he leads us out of the region of pure science and allows his arguments to be shaped by the theory of surplus value and by his belief in an essential harmony between the interest of the landlords and that of the community* His optimism in this connection is based on the peculiar theory that an increase in the supply of corn creates at once a corresponding increase in the demand for it, so that its value remains unchanged even when improvements add to the productivity of the land. It is quite likely, however, that long years may elapse before such a satisfactory adjustment takes place and that in the meantime over-production may lead either to a fall in the value of corn or to a shrinkage of the arable area inflicting in either case an injury on the landlords, while it distinctly benefits the consumers in one of them and leaves their purchasing power unaffected in the other. These possibilities are overlooked by Adam Smith, and little account is taken of the familiar experience that every increase in the demand for corn injures the

* "The interest," says he, "of the first of those three great orders (Landlords).........is strictly and inseparably connected with the general interest of the society." It does not occur to him that even if the landlords profit by what is a gain to others, they may also profit by what is a loss to these.

consumer at the same time that it gives an advantage to the landlord, because the additional demand has to be met at an increased cost so long as other things remain unchanged. These are omissions which militate against the completeness and consistency of his observations on rent, and it is against them specially that Ricardo's logic is directed.

CHAPTER II

RICARDO AND J. S. MILL

There is a striking similarity between Adam Smith's starting point and Ricardo's introductory observations on the origin and nature of rent. With him, too, rent is the result of the appropriation of land, being the price exacted by its appropriators from those who want it for productive purposes.* But he tries to give scientific precision to the sense of the term by defining it as the consideration paid for the license to turn to account "the original and indestructible powers of the soil." Its use in common parlance to denote whatever is paid by a farmer to his landlord is, according to Ricardo, an illustration of the too common failure to distinguish between economic facts of radically different types, where they are found in constant combination. To bring out the distinction, he takes two farms of equal extent and fertility, of which one has farm buildings and fences and is, besides, properly drained and manured, while the other has none of these advantages. The value of the inherent properties of the

*"It remains however to be considered whether the appropriation of land and the consequent creation of rent will occasion any variation in the relative value of commodities"—Ricardo, *Principles of Political Economy and Taxation*. *Ed.* by Gonner. Page 44.

soil is obviously the same in the two cases, and so the difference in the prices paid for their occupation must be the profit on the outlay for the improvement of the first holding. But since the rate of profit and the value of the inherent and inseparable properties are not governed by the same laws and seldom move in the same direction, nothing but confusion can result, in Ricardo's opinion, by extending the sense of the term, rent, so as to include both of them. He would, therefore, rigorously confine its application to that portion of the landlord's income which is not attributable to the capital invested in improving the efficiency of the land as an agent of production.

But has the soil everywhere indestructible properties, which may be conceived of as a source of wealth and revenue, independent of the productive power that it owes to capital? Except where natural agencies periodically renovate it, as they do in the Gangetic delta and in the valley of the Nile, the most fertile land ceases as a matter of fact to respond to human industry after it has been cropped for a succession of years without any effort to return to it what it has lost. But even if it were assumed in spite of this experience that the soil of every country has certain valuable qualities which tell whenever it is used for productive purposes, there would still remain the objection that in any instance that purports to be concrete, the line must be hard to draw between the portion of the landlord's income which

may be set down to the credit of these qualities and that which would fully account for the ameliorating influence of capital. Take the second farm in Ricardo's illustration. Is the total payment on account of it nothing but the value of the inherent properties of the soil? The question may be answered by asking if the same price will be offered for its use after it has remained uncultivated for a number of years and is in consequence so overgrown with briars and brambles that the tenant must put himself once more to the expense of reclaiming it before it can be profitably utilized? If the price falls when the land relapses thus into the state of nature, then the whole of it cannot be assigned to the so-called natural and indestructible properties of the land. So here, too, we have a manufactured commodity, and it makes no difference for the purposes of our analysis that this commodity is less elaborately equipped than the other and that its fitness for productive work is only the collateral result of what previous occupants have done for their direct and immediate gain.

But Ricardo is not happy in the choice of his illustration, and so his analysis fails to bring out his point. What he has in view elsewhere is the difference often observed in the yield of two farms which have received the same treatment in the past and are on a par with regard to the advantages that capital can confer. A higher price will in the circumstances be paid for one of them than for the other; and

the excess may with colour of reason be attributed to the superior natural fertility of the former. But how are we to characterize what is left over after deducting this excess? Is it nothing but profit in every instance? Take, for example, the case in which a tract of boggy land is improved by the construction of a canal which facilitates sub-soil drainage, or another in which the opening of a railway increases the value of lands in its neighbourhood by offering facilities for the importation of farming requisites and the exportation of farm products. Improvements like these add to the income of the landlord; but they are generally undertaken by Governments with funds obtained from taxes or public loans, and so do not imply any special sacrifice on his part. Hence any benefit that he derives from them can not be called profit, for profit, as Ricardo would have said, is the remuneration that a man earns by investing his capital in industry and taking its risks. It appears, therefore, that his analysis of the price which the tenant pays for the occupation of land is defective, as it leaves out of account an element which is likely to become increasingly important with the progress of civilization.*

---

* How great is the omission is brought out by the following observations of Friedrich List,—

'The original natural productive capability of land is evidently so unimportant, and affords to the person using it so small an excess of products, that the rent derivable from it

Ricardo lays special stress on the distinction* between rent as he understands it and profit on the landlord's outlay, because he thinks that the actual course of rent in advanced countries cannot be satisfactorily traced and explained unless it is borne in mind. The total payment to the landlord is according to him not a reliable guide, for compounded as it is of two elements governed by different laws, it remains stationary at times owing to the conflicting operation of unrelated though concomitant conditions and advances or recedes only as one or the other preponderates. But when the capital of the landlord is invested in land, it often alters the character of that land and loses its own separate-

alone is not worth mentioning.........The natural productive capability of the soil in Malta consists of rocks, which would scarcely have yielded a rent at any time. If we follow up with the mind's eye the course of the civilization of whole nations . . . . we may easily convince ourselves that the rent everywhere was originally nil, and that it rose everywhere with the progress of civilization and of population, and with the increase of mental and material capital. . . . . . We see, indeed, how pieces of land yield rents which the hand of men has never stirred by cultivation, as, for instance, quarries, sand-pits, pasture grounds; but this rent is merely the effect of the increase of culture, capital and population in the vicinity. We see, on the other hand, that those pieces of land bring most rent whose natural productive capability has been totally destroyed, and which serve for no other use than for men to eat and drink, sit, sleep or walk, work or enjoy themselves, teach or be taught upon, *viz.* building sites.—*The National system of Political Economy* (1916). P. 206.

ness, so that the income from it is no longer governed by the laws which regulate interest or profit.* The value of the land moves thenceforth one way or the other only as the demand for improved land of this kind increases or declines, and this demand is conditioned by the cost of cultivation and the prices of agricultural produce, so that the current rate of interest cannot directly influence the value in question or any component part of it. A crucial test is furnished in this connection by the fact that in periods of agricultural depression the rent of improved land falls quite as much as that of what is unimproved even when the rate of interest remains unaffected or shows an upward trend.

If may be observed, however, that capital which has taken *any* definite form yields thenceforth an income that is determined by the effective demand for the commodity in which it has embodied itself, and that, therefore, an exact correspondence between this income and the rate of interest can be possible only where the capital is capable of

*Ricardo admits in a note appended to the chapter on 'Poor Rates' that the income from capital which is 'inseparably amalgamated with the land, and tends to increase its powers' is of the nature of rent, being subject to the same laws that govern it. Only that portion then of the capital which consists of buildings and fences and such other improvements as do not 'obtain for the landlord any permanent addition to his real rent' is, according to him, remunerated in a different way. This is a significant admission, but even this does not go far enough.

changing its forms with perfect ease and rapidity in response to every disturbance of the level of profits. Such a condition is, indeed, nowhere realized. But it is farthest from realization in the case of capital which has been sunk in land.* Here too it is true that the current rate of interest governs the investment of capital ; and that if the maintenance of an improvement requires a periodical application of it, the improvement may be allowed to disappear when the income expected from any such application falls short of that rate. But this does not affect the position that the income from capital which has been already invested in land ceases more completely to follow the movements of that rate than the income from capital goods which are reproducible at will. For even where the anticipated income is large enough to offer every inducement to fresh investment in land, the fixedness of its stock must check the flow of capital to it beyond a certain point, after which there can be no correspondence between the return to the landlord's outlay and the current rate of interest or even of profit. It may, therefore, be said that Ricardo draws a distinction where there is not much of difference when he

---

*Compare what Pierson says on the subject :—

'Capital,' says he, 'when applied to the improvement of the land is not transferred or transformed; it ceases to exist . . . A nation that spends capital on increasing the productive powers of the soil will own less capital, but better land—*Principles of Economics*. Vol. I., P. 82.

analyzes the total payment to the landlord into two radically unlike factors. He is led to draw it because he is convinced that in progressive communities rent steadily increases, while the rate of profit declines. And there is, no doubt, ample empirical confirmation of such a doctrine. But it does not follow that the revenue from capital which has become an integral portion of the land moves in sympathy with that rate after it has been separated from the parent stem and indissolubly bound up with an instrumental commodity that cannot be freely reproduced.

It has not been often noticed that Ricardo's definition of rent has been borrowed from Adam Smith and spoilt in the borrowing, and that its phraseology is reminiscent of a theory which he would have been the last person to subscribe to, Adam Smith takes rent at the outset of his enquiry in the simplest and least objectionable sense, *viz.* as the price paid for the use of land. But when he tries to demonstrate the superiority of agriculture to industry and commerce, he characterizes it as the produce of those powers of the soil, 'the use of which the landlord lends to the farmer.' He includes, however, in these powers "improved as well as natural fertility," while Ricardo thinks that improvements are remunerated on principles different from those which govern the value of the original and indestructible powers. He has, of course, no superstition in regard to the nature of rent and so

attributes it not to any supposed special assistance rendered in agriculture by natural forces, but to the circumstance that these forces have been appropriated, so that whoever wants to use them has to pay for the loan if he is not one of the appropriators. But he does not attach due importance to this cardinal fact of appropriation, which resolves itself ultimately into limitation of supply, and virtually loses sight of it when, instead of saying that difference in productive powers is the cause of difference in rents, he enunciates the principle that rent emerges only where there is a difference in productive powers among the lands that are under cultivation. The rent of all but the least fertile lands is in old countries generally composed of two elements, one of which is the difference between the value of the produce and the cost of production under the least favourable circumstances, while the other measures their superior productivity, natural or acquired, compared with less valuable lands. The first of these is the result of the niggardliness of nature or the niggardliness of man and will, therefore, be in evidence even where all the lands are of the same degree of excellence. It is this element which Ricardo ignores when he observes that rent commences on land of the first quality only when owing to the progress of population it becomes necessary to cultivate land of the second degree of utility. A theory like this of the genesis of rent supplies a connecting link between his definition and his view

of it as the differential return obtained from superior soils ; but it obscures the real nature of rent and deflects attention from those conditions which are sometimes instrumental in bringing about a general elevation of it.

Ricardo undertakes to prove that Adam Smith's observations on the nature and causes of rent are incorrect except in a noteworthy passage, in which it is described as an incident of the high price of agricultural produce. And yet, as I have already observed, he himself connects it with the appropriation of land in the opening sentence of his chapter on the subject. The two views are not, indeed, theoretically irreconcilable, for though appropriation may be a condition of the emergence of rent, yet rent cannot obviously be paid to the appropriator so long as the level of prices of agricultural produce is so low as to leave nothing after the stock of the cultivator has been replaced with ordinary profits. There is, however, no good reason why his necessities should compel the landlord to make a gift of the land to him. And so wherever hedonic motives prevail, a consideration will be demanded for the use of it ; and this consideration will be included in the price that the cultivator will ask for his produce. If, however, the volume and intensity of the demand for it render such a price out of the question, the supply will be reduced till an adjustment takes place on a new price-level, that, though lower, is still high enough to permit the exaction by the landlord of a

rent for the land, which well-informed self-interest would regard as quite adequate under the industrial conditions of the time. And where such an adjustment cannot take place, the thing will cease to be produced on any scale that the economist need consider.

This is virtually Adam Smith's position, if we ignore the sporadic exploitation of land in circumstances that do not permit complete appropriation by the landlord, to which he attaches undue importance. For the few other exceptions that are noticed by him are cases in which non-economic motives intervene in favour of the tenant or a consideration is in reality paid by him, though it is so disguised as to be hardly recognizable. But Ricardo is convinced that in every country there is land, which just repays the cultivator and so yields no surplus which may be appropriated by the landlord. And he bases his theory of rent on the existence of such no-rent land. This theory has, indeed, another support which will be examined later on. But it may be observed here that the assumed existence even in old countries of a margin of no-rent land considerable enough to determine by the price of its produce the incidence of rent on lands of superior quality cannot be reconciled with his assertion that rent is the result of appropriation, especially as the intervention of antihedonic considerations is ruled out of account in the strictly deductive method which he follows. He evidently loses sight here of the fact that where the

entire land of a country has been appropriated, those who want the use of any portion of it must, generally speaking, be prepared to pay a price, which is really based on scarcity, though owing to competition it will correspond to the higher return which the land may yield as compared with lands of inferior productiveness. The state of the demand for land, determined as it is by the price of its products, may, no doubt, prevent the whole of it from commanding a value in the market. But so long as the economic motive governs the relation between landlords and tenants, there is no reason why the portion that is not taken up and paid for should be offered without a consideration. It is certainly possible to work down to a level of infertility at which the cost of production just equals the value of the total produce. Nay more, there may be a few plots here and there which are on this low level and so do not pay rent, though they are utilized as instruments of production. But that they are so utilized is due to the circumstance that the economic motive does not sum up all the forces and considerations which shape the actualities of industrial life. And in any case it is preposterous in the literal sense of the word to say that the cost of working them determines the price of agricultural produce, or that rent is paid for better lands merely because and in so far as their yields exceed those obtained at the no-rent margin.

The truth is that Ricardo takes as a suppositious

case what is after all an accurate presentation of conditions which govern the use of land in old and densely peopled countries. If there were no land, says he, "which did not afford a rent; then the amount of rent on the worst land would be in proportion to the excess of the value of the produce above the expenditure of capital and the ordinary profits of stock; the same principle would govern the rent of land of a somewhat better quality, or more favourably situated, and, therefore, the rent of this land would exceed the rent of that inferior to it, by the superior advantages which it possessed; the same might be said of that of the third quality, and so on to the very best." Here then there is a general element in rent, and it is present wherever there is a relative scarcity of land that is fitted for purposes of production. Ricardo refuses, however, to recognize this simple truth, because it appears to be incompatible with his theory of the historical origin of rent and with what he conceives to be its determining condition in new and sparsely settled tracts. In America, he observes, land might always be had free of charge, "which could yield a produce sufficiently valuable to replace the stock employed with the profits ordinary and usual in that country." And he takes it for granted that the principle which regulates rent in America can not be different from that which is operative in Europe. At the same time he is prepared to admit that the actual payment to the landlord may diverge from the differential

return to any extent. Rent, therefore, as he understands it, is merely an economic concept, an abstraction, which corresponds to some extent to reality only because lands differ from one another in accessibility and productive power. There is risk in taking a word from ordinary speech and using it in an unusual sense in a science like Political Economy. For even when the new import is not lost sight of, it renders difficult the application to problems of practical life of conclusions which involve a term that in spite of its familiar ring stands for a thing which bears only a distant resemblance to reality. Adam Smith is happy in his definition of rent ; for he does not aim at scientific subtlety, but simply states what ordinary people understand by the term and then proceeds to explain how the thing so denoted is determined in different circumstances. Ricardo, on the other hand, defines 'rent' in his own way and then formulates a theory about its origin and nature, which is really an amplification of the new content of the term, though it looks like a discovery because it is not involved in the usual connotation or in his other definition of rent as the compensation paid to the land-owner for the use of the original and indestructible properties of the soil.

There is, moreover, a curious combination of the essential and the inessential in his analysis of the conditions that necessitate the emergence of rent. It is paid, according to him, only because land is so limited in quantity and unequal in quality that

when population has advanced beyond a certain limit, recourse must to had to inferior lands for meeting the increased demand. A statement like this implies that the mere limitation of supply would not give rise to rent if all lands were uniform in quality. That they are not is beyond dispute, and it is also admitted that their inequality in respect of productive power and advantage of situation is the cause of the unequal rents that they afford. But a concomitant circumstance is elevated by Ricardo to the rank of a leading cause, when instead of simply observing that the patent differences in fertility and accessibility define the operation of scarcity, he goes so far as to assert that rent commences on land of the first quality "when land of the second degree of fertility is taken into cultivation."* For it is incomprehensible how payment of rent can be avoided when with the progress of society there comes into existence a class of men who must apply to the appropriators of land for permission to use it as an instrument of production. There may be a super-

* In a new country where there is an abundance of fertile land compared with the population and where, therefore, it is only necessary to cultivate No. 1, the whole net produce will belong to the cultivator and will be the profits of the stock which he advances. As soon as population had so far increased as to make it necessary to cultivate No. 2, from which 90 qrs. only can be obtained after supporting the labourers, rent would commence on No. 1.—Ricardo, *Principles of Political Economy and Taxation*. Ed. by Gonner. P. 47.

abundance of the best land, and yet if it is unequally distributed, those who require more than they own for turning their ability and resources to the best possible account will be prepared to pay a consideration for an extension of their holdings unless there are other industries which appear more advantageous or attractive to them. And a similar situation will arise even when there is an equal apportionment of this source of wealth, if owing to inequality in productive power, some people find that a portion of their allotments lies idle on their hands, while others would like to have the surplus to save themselves from starvation or to prevent their capital and intelligence from 'rusting in disuse.'

Thus rent may be in evidence long before the need is felt of working land of the second grade of excellence. The community may possess land of a hundred different varieties ; yet all but the very best are non-existent for practical purposes so long as the demand for the produce of land is not sufficiently strong to justify their exploitation, while it is intense enough to create a market for every bit of the most productive soil. Further, even when the demand improves and the margin of utilization descends in consequence, the descent cannot be regarded as the cause of the augmented rent that is paid for the best land. It is the limitation of supply, again, that causes the rise under the influence of the enhanced demand ; and the shifting of the margin really moderates it instead of bringing it about. For the

new instrumental commodities which are taken up serve as a sort of substitute for the most fertile land, and though the latter must still command a higher price on account of its superiority, yet this price cannot soar as high as it otherwise might, because beyond a certain point the inferior instruments become quite as efficient as the best, their lower value making up for their comparative infertility. Ricardo is thus obviously wrong when he connects the appearance of rent with the descent of the margin of cultivation. He starts from an unexceptionable premise when he says that if land were "unlimited in quantity and uniform in quality, no charge could be made for its use," for even if the total stock of land were unlimited, inequality in the fitness of different portions of it for productive purposes would beyond a certain stage of progress give rise to rent. But it would do this only because its presence limits the extent of every grade of land and, therefore, of the best. So there is no justification for concluding as he does that rent comes into existence owing to the combined operation of difference in quality and limitation of supply.* The

* 'Cannan points out that 'limitation of supply' received only tardy recognition as a cause of rent at the hands of Ricardo. He wrote at first.—It is only then because land is of different qualities with respect to its productive powers, and because in the progress of population land of an inferior quality is called into cultivation, that rent is ever paid for the use of it. (*Principles*, 1st. Ed. P. 54). In the 2nd Edition,

second of these conditions is adequate for the explanation of rent, while the first may be regarded as a cause only in so far as it is indicative of the presence of the second. There is rent because there is an inelastic limit to the supply of every grade of land. Now this limit is due in the last resort to "the niggardliness of nature"; but because nature has been niggardly, the appropriators are in a position to make the scarcity felt before the stock of nature is exhausted and thus to demand a rent for land of which there is yet enough to supply all the needs of the community.

Suppose A, B, C and D divide equally among themselves all the land in a district that they settle in. B or the descendants of B may have in course of time a large family which can not be maintained by the cultivation of the land originally allotted to him, while A may have more than he requires. The impecunious members of B's family will, in the circumstances, take some land from A and agree to pay in return all that may remain of its produce after meeting their wants. This is the highest rent that can be paid. But if C too has spare land, then the

---

however, he modified the passage in the following manner,—'It is only then because land is not boundless in quantity and uniform in quality and because in the progress of population land of an inferior quality is called into cultivation that rent is ever paid for the use of it. (P. 51). The substitution of 'unlimited' for 'boundless' was the only change that he afterwards made in the text.

competition between A and C may enable the descendants of B to offer a lower rent, which may be anything between the maximum and zero, but never quite zero, so long as economic forces are exclusively at work. The situation becomes still more complex when there are other persons besides the descendants of B bidding for the surplus land. And where there is this twofold competition, the advantage will lie on the side of the landlords if there are many impecunious persons bidding for the surplus land, while it will be with the tenants when there are many men anxious to part with their surplus land for a consideration. But it is immaterial on which side the advantage appears ; the fundamental fact with regard to the present enquiry is that rent makes its appearance whenever there is a relative scarcity of land due to its appropriation by a certain class of men to the exclusion of others.

It is, indeed, conceivable in view of this fact that rent may be exacted for land of the second quality before any one pays anything for land of the first quality*. Suppose A has land of various degrees of excellence ; he will then in all likelihood keep all the superior land for himself and lease out the inferior land for a consideration. Even here, it is

* Something like this happened in thn agrarian history of England when competition rents came to be paid for the holdings which were carved out of the waste and which were inferior in fertility and advantage of situation to the customary holdings.

true, a definite portion of the undivided income from the better land may be labelled as rent on the ground that it differs in its character and origin from wages and profit. And there is an obvious advantage in an etiological enquiry in marking it off in this way, as it fixes the attention on the causal connection between rent and the relative scarcity of land, though it must be said that where rent is a distinct share of the national income, this scarcity is directly due not to the natural limitation of the supply but to the control exercised over it by the appropriators in their own interests. But whatever advantage there may be in such an extension of the use of the term is lost by Ricardo owing to his gratuitous assumption that in every application of it, it denotes only a differential return. He has his attention riveted on the difference between the produce of superior lands and that which is obtained from soil which has no special or exceptional advantage ; and this difference, which is, *ceteris paribus,* a measure of their relative fertility, is what he calls rent.

More than once does Ricardo light on a simpler and more correct explanation of rent. But he does not stop to elaborate it and to indicate the limitations which seem to override it as antagonistic principles in real life. The farmer, says he, must have "the ordinary and usual profits which he may obtain by any other employment of stock," and so he cannot afford to pay rent for his holding unless it yields something over and above what industrial

conditions permit him to appropriate as adequate compensation for his trouble and expenses. "All extraordinary profits," he observes elsewhere, "are in their nature but of limited duration, as the whole surplus produce of the soil, after deducting from it only such moderate profits as are sufficient to encourage accumulation must finally rest with the landlord." Here then do we get the true determinants of rent, *viz.*, the level of agricultural prices on the one hand and the level of wages and profits as fixed with reference to the general market for labour and capital on the other. And so we indulge in a periphrasis which obscures the nature and course of rent if we characterize it as a differential return and take as the standard of measurement the produce of the land which yields just enough to cover the cost of cultivation with ordinary profits. Besides, where even this land has been appropriated, the inability of the farmer to produce more than what is required for his own remuneration may not be logic enough to induce the appropriators to part with their property without a consideration. So unless there is unappropriated land which may be profitably utilized, the height of rent must depend on an imaginary base-line, the position of which is fixed with reference to the cost of cultivation of those very lands whose rent it is supposed to determine. Ricardo tries to avoid this position by observing that there is hardly any country so fully occupied as to possess no land which would just remunerate the farmer. But

the pertinent question is not whether there is any land of this quality, but whether its proprietors would make a gift of it simply because it is too poor to yield a net produce. And if the answer to it must be in the negative, it follows that the principle laid down by Ricardo as regulating the amount of rent can have no application in countries of which the entire land has been appropriated.

But if there is no point in describing rent as a differential return in circumstances like the above, there is, it may be objected, a positive inaccuracy in characterizing it under similar conditions as a mere surplus determined more or less by current rates of profit and wages. For if a price is demanded for the possession of land which might otherwise be profitably utilized, there is a restriction of the field of employment and a consequent decline in the rates of profit and wages, which appear thus to be affected in their turn by the demand of the landlords. It is a criticism to which we shall return at a later stage of the enquiry, and so all that need be observed here is that it indicates the limits within which the rent-residual theory may be taken as correctly representing the nature of the social distribution of wealth. So long as the level of agricultural prices is too low to enable the owners of a certain class of land to earn a revenue by letting it, it must remain outside the circle of instrumental commodities. It does not, therefore, compete with superior lands or affect in any way the rent which

is paid for them. And when a change in the level of prices enables it to enter the industrial field as a factor in production and thus to compete with the better lands, it does so only because the demand for its produce is sufficiently intense to permit the owners to exact a price for its use. Thus rent can not be a differential return in the sense in which Ricardo understands it except where there is enough of unappropriated marginal land within easy reach to make it a matter of indifference to the farmer whether he should carve out a slice from it and occupy it free of charge or pay a rent for a better holding.

There can be no better illustration of the defect of Ricardo's method than his persistent refusal to take into account the manner in which rent is determined under modern conditions and his readiness to discover in a conjectural history of agricultural progress a complete explanation of its nature and of the circumstances in which it originates. If we regard it as an incident of the appropriation of land, it is the effect, of course, of the determination of the appropriators to shut out from its possession all who are not prepared to pay a price for it. If, on the other hand, it is viewed as independent of landlordism and characterized as a typical income separable always by scientific analysis from wages and profit, though it may not be always actually separate from them, then its genesis must be sought in the natural limitation of the supply. But in either case

it is the measure of the comparative utility of the marginal land as one out of a number of instruments of production, and this utility corresponds, of course, to the value of the most valuable product or service that can be obtained from it. As land, however, is not uniform in quality, an additional consideration, commensurate with the degree of its excellence, is paid for it where it possesses superior productive power or special advantages for marketing its produce. This additional consideration is the differential element in rent, which from its nature can form no part of the income from land which is on the margin of utilization. Ricardo gratuitously takes this to be a no-rent margin and so arrives at the conclusion that the total rent paid for superior lands is determined by the excess of their produce over that of the land which ranks lowest in the scale of fertility. His position would be tenable, indeed, if the land at any time on the margin were 'unlimited in quantity' so that any body could take as much of it as he liked without having to pay for it. But such a condition is notoriously absent where land has been appropriated and the economic motive governs the action of the appropriators.* And it is only

* In his exposition of the Ricardian theory, Fawcett tries the avoid the difficulty by introducing the convenient word, 'nominal'. 'Land', he says, 'will only pay a nominal rent when the produce raised from it is no more than sufficient to return the average rate of profit upon the capital spent in its cultivation. If we compare such barren land with land which

theoretically realizable elsewhere, for even if there is a practically indefinite supply of such land, a more or less narrow limit to utilization is prescribed by differences in accessibility or advantage of situation.

Besides, it may be argued that the value of every agent of production is a differential or surplus in the sense in which rent is ; and, indeed, the commonest facts of industrial life seem to justify such a contention. In hiring, for instance, a spinning machine, we agree to pay twice as much for one which works up double the quantity of cotton at the same cost as another. Similarly, if an operative can look after two spindles, we have no hesitation in paying him twice as much as we would to the man who is

---

pays a considerable rent, then.........the difference in the pecuniary value of the superior productiveness of this better land may be measured by the difference in the rents paid by the good and barren lands respectively. But this difference is denoted by the whole rent paid by the good land, since the rent of the poor land is assumed to be merely nominal.—*Manual of Political Economy*. 8th edition. Page 122.

But this new presentation of Ricardo's doctrine can hardly be looked upon as an improvement. For what are we to understand by nominal rent? If it is anything above zero, it is not clear how the cultivator of the barren land can afford to pay it, when the produce is 'no more than sufficient to return the average rafe of profit'. But even if this objection is waived, it must still be observed that rent is not explained or even correctly measured by comparing the large net yield of superior lands with the inconsiderable income obtained from lands the produce of which leaves a small surplus after remunerating the cultivator.

entirely occupied in managing one. And the higher payment is in each of these two cases the result and measure of superior efficiency as revealed by a comparison with other agents or instruments which are lower down in the scale of productive power.* A distinction, however, will be drawn by the Ricardian on the ground that the marginal land pays no rent,

* Smart subscribes to this view though he is inclined to accept the distinction between rent and quasi-rent. "If rent," says he, "is due to differential quality in the factors of supply, ...then evidently rent enters more or less into the remuneration of every factor as well as land. It enters into wages, (1) because the human factor is naturally differentiated; (2) because it takes a considerable time before any particular class of labour can be produced, educated or trained to increase the supply. It enters into profits for the same reason, the employer being in essence a head worker. It enters into capital, though less prominently, whenever any concrete form has secured a patent right or other monopoly which prevents its quick increase."

But more interesting than Smart's is the testimony of Walker, who uses Ricardo's arguments *in toto* to prove that profit is a differential gain. He states his case thus,—

'If the number of men of exceptional abilities were sufficient to do all the business that required to be done,......if these men, however much surpassing all other members of the industrial society, were among themselves equal in all respects which concern the conduct of business.........we should have a situation closely analogous to that.........of a community near which was found an amount of good land, of uniform quality, adequate or more than adequate, to raise all the produce required.........But no small part of the posts of industry and trade are filled by men inadequately qualified, and who conse-

while we do not come across no-wage labour or no-rent machinery. But the marginal land for wheat or rice may be very good land for inferior crops, and what is not good enough for these may still be valuable pasture, so that there is no reason why land which is used for any of these purposes should be offered without a consideration. It follows, therefore, that the no-rent margin, with reference to which the value of superior lands is said to be determined, is land that is utilized for an object which, whatever it may be, ranks lowest in the scale of utilities. But no landlord or farmer would subscribe to such a theory as representing in any sense the considerations which weigh with them in deciding what one of them should demand and the other undertake to pay. A crucial test is furnished in this matter by the very dynamic fact which Ricardo uses to illustrate his theory. For when there is an augmented demand for agricultural products owing to an increase of population, farmers

---

quently.........realize for themselves a meagre compensation, so meagre that, for purposes of scientific reasoning we may treat it as constituting no profits at all.........From this low point upwards, we measure profits.........All profits are drawn from a body of wealth which is created by the exceptional abilities (or opportunities) of those employers who receive profits, just as all rents are drawn from a body of wealth, which is created by the exceptional ability (or facilities for transportation of produce) of the rent-land measured from the level of the no-rent lands."—*Political Economy*. 3rd Edition. Page 234.

are impelled by the prospect of additional gains to add to their venture by offering a higher rent for land which is already paying it as well as by undertaking to pay something for land which till then could have yielded no surplus after remunerating the cultivator. And in either of these cases it is evidently the difference between the value of the produce obtained and the cost of production which determines rent.

It is, moreover, hardly correct to say that there is no no-wage labour or no-rent machinery, for the labour of the apprentice, the pauper and the convict is not paid for in the same way as that of wage-earners, while in almost every community there are working-men who use implements that have been rejected as practically worthless by the bulk of the workers in the same lines of business. And if their contribution to the national wealth is negligible, equally negligible is the proportion of the produce which is obtained in any old country from no-rent land. But though it is quite possible to measure the value of labour and machinery by comparing their efficiency with that of similar factors whose net produce is practically nil, they are as a matter of fact never valued in this way, and the same may be said of rent. It is ultimately what remains of the total produce after replacing the stock and deducting profits and wages at the current rate. Or in other words, it is the 'net produce' of the land; and wherever there is free competition, the landlord is

able to exact it from his tenant without any reference to what may be the yield on other lands. There is, of course, not much risk of mathematical inaccuracy if we choose to describe the rent of land under the simplified conditions assumed by Ricardo as the difference between its net produce and that of the land which is on the margin of cultivation, as the latter is *ex hypothesi zero.* It should, however, be borne in mind that some of the most fertile lands yield a satisfactory return only if there is a more lavish application of capital than is required for working poorer soils, so that if the Ricardian formula is to be used in calculating their rent, the unit of capital and labour can not be the same in every case for a just comparison of productive efficiency. And even if this difficulty is overcome and it is assumed that a comparison like that instituted by Ricardo is rendered possible by the existence of a considerable margin of no-rent land, there still remains the more serious objection noted by Clark *viz.*, that the Ricardian explanation of rent is based on the supposition that it is the extension of the margin of cultivation that brings about its enhancement, while the true sequence is first an increase of the surplus all along the scale and its appearance on what had been till then the no-rent margin, due either to a decrease in the cost of production or to a rise in the value of the produce, and then the extension of cultivation to land, which, though poorer still, fully repays the cultivator under the

changed conditions, though it creates no surplus which may be appropriated by the landlord. Thus as an exposition of the true order of economic phenomena, there is not much to be said in favour of it ; and the only useful purpose which it serves is to call attention to the incontrovertible fact that a descent of the margin of cultivation synchronises with an upward movement of rent all along the scale of productivity.

Ricardo says that at the first settling of a country, the richest lands are taken up and that, therefore, as population increases, the increased demand for foodstuffs is met by bringing inferior soil under the plough. This descent of the margin of cultivation is accompanied, of course, by an enhancement of the price of agricultural produce, for it must be high enough to remunerate those who work under the greatest disadvantage. The consequence is an augmentation of the income of those who work more favoured lands. But their extra gain is wrested from them where they are not the proprietors. And even where they are, it should still be styled rent or the revenue of the owners of land to mark it off from interest and wages of superintendence which must be uniform throughout the whole field of agrarian industry. So in the chain of causation which completes the evolution of rent, the order of events is, first, increase of population, then the application of capital and labour to less and less productive lands and a levelling up of the price of

agricultural produce under the operation of the principle of indifference, then as a consequence the appearance of a surplus in the net proceeds from superior lands, which is not profit in the proper sense, and lastly the transference of this surplus under the influence of competition to the landlords. Such is, according to Ricardo, the historic process which gives rise to rent. And he gives it the character of inevitableness and thus raises his account to the dignity of a dynamic theory of rent by connecting it with the Malthusian doctrine that population has everywhere a tendency to outstrip the means of subsistence.

It has been said that Ricardo's sketch of the course of agriculture contravenes the verdict of history, which is that poorer soils were first taken into cultivation, while the richest lands had to wait long for their reclamation. But this criticism does not invalidate Ricardo's position, because the quality of land was determined in the past as it is today with reference among other things to the skill, experience and capital of the cultivators. Hence what we regard as particularly valuable land must have appeared perfectly useless to primitive men with their slender resources and untrained intelligence. On the other hand, the least fertile soil might have been prized highly, because social and political progress and a more or less considerable knowledge of the technique of the industry were not required for turning it to account. Ricardo's

observation thus practically resolves itself into the truism that the husbandman prefers the land which gives the best return for the capital and labour that he can bring to bear on it, and the less generous soils are taken up only when the supply of the former falls short of the demand. There is also the objection that Ricardo's theory would lead us to expect a progressive enhancement of rent in advancing countries, while its upward course has been often chequered by occasional falls. But Ricardo simply states that the tendency of rents is to rise where there is a growth of population. And it does not militate against his position that this tendency is sometimes counteracted by the improvement of the agriculturist's art or by the development of foreign commerce.

There are, however, more serious objections. One of them lays stress on the apparent incompatibility between the sequence of events on which Ricardo bases his theory and the unalterable scheme of nature, according to which there must be an antecedent increase of food supply before there can be any increase of population. This must be specially evident in a self-contained community like that which Ricardo has in view, but the necessity exists everywhere, though it is sometimes disguised by the circumstance that the additional supply is obtained without serious difficulty from a distant source. Still it may be possible to attach too much

importance to this criticism, for the correspondence between the demand for food and the supply is never so exact, nor is the demand so inelastic as to preclude the possibility of some increase of population without a corresponding increase of production. Ricardo's theory of rent is based also on the assumption that the value of a commodity is determined by the cost of production, and that when this cost is not uniform, it is fixed by the cost of the most costly portion which is required to satisfy the demand. The question, therefore, arises why the maximum expense incurred in producing the thing and not the minimum should be the measure of its value. And for a satisfactory answer to it, we must look beyond the cost of production theory and find it in the character of the demand. This it is that fixes the price in such a way as to establish a correspondence between itself and the supply. And the price when thus determined indicates the circumstances in which the thing will be produced. If the total quantity required cannot be obtained at a uniform cost, this price fixes the highest cost at which the thing can be produced on business principles. And while most of it will, no doubt, be produced under conditions which will allow a threefold division of the income from the industry, a portion, often negligible, may still be raised here and there on land which is too poor to pay rent and which the generosity or the weakness of the landlords permits a few needy men to occupy without a

consideration. But it would be obviously as unreasonable to say that the price of the produce is determined by the cost of production in these exceptional circumstances as it would be to regard the price of pins and needles as fixed by the cost at which they may be manufactured by a few poor smiths working independently and without the latest appliances. Their price is really determined by the equation of the demand with the supply as regulated by the dominant conditions of the industry, though this price allows the workmen in question to earn a sort of living by following old and antiquated methods of production. Similarly in the case of agricultural produce, it is really not by the margin but at the margin that the price is determined. This important fact, however, is lost sight of by Ricardo owing to the undue importance which he attaches to supply as represented by the cost of production.*

In justice, however, to him, it should be said that he does not consider the existence of a considerable margin of no-rent land to be a necessary condition of the emergence of rent. Rent, as defined by him, is after all only "the difference between the produce obtained by the employment of two equal quantities of capital and labour," and so it is immaterial whether the difference manifests itself in

* Cossa is indulgent towards Ricardo when he says,—'You will not find him ignorant of demand, but he certainly understates it, and exaggerates the importance of supply which is represented by the cost.'

the cultivation of different lands or in the extensive and intensive culture of the same soil. The need of taking up inferior lands to meet a growing demand for foodstuffs is, as he himself observes, often avoided by a more lavish expenditure of capital on those that are already under the plough. But wherever this happens, the return decreases for each additional application of capital owing to the "niggardliness of nature." It follows, therefore, that there is a limit beyond which this mode of treatment of the soil cannot be pushed ; and that limit is reached, when the farmer is just remunerated for his outlay. We have thus to deal in these cases with a no-rent margin of capital, the productivity of which is an index of the standard of remuneration which will satisfy the farmer and so serves to determine the surplus obtained by the rest of his investment.* This surplus is to be regarded as rent and

* The best exposition of the Ricardian doctrine of the two-fold origin of rent is to be found in a brilliant essay entitled 'The Marginal Concept of Rent' which appeared in the *Quarterly Journal of Economics*. The following extract from it presents the outstanding features in a form that is eminently suggestive and by no means indefensible :—

"With every increase in demand, cultivation is spread extensively to less fertile or less accessible soils and pushed intensively to less productive uses of soils already under cultivation. As long as land of the next poorer quality to the poorest in use is freely available, there will be an extensive margin or no-rent land and an intensive margin or a no-rent use of land. With every change in demand, extensive and

is as a matter of fact transferred to the proprietor where landlordism is in evidence.* "If," says Ricardo, "with a capital of £1000, a tenant obtains 100 qrs. of wheat for his land, and by the employment of a second capital of £1000, he obtains a further return of 85 qrs., his landlord would have the power.........of obliging him to pay 15 qrs. or an equivalent value for rent ; for there cannot be two rates of profit."

It has been objected that the return to successive doses of capital does not always progressively decrease in the manner assumed by Ricardo, and that as a matter of fact, rent has often risen in consequence of an increase of production brought about by a more liberal and judicious application of capital without any decline in the yield of the least productive portion of it. A notable instance is to be

---

intensive cultivation will advance or recede, and at any given time the two margins will tend.........to an equilibrium, *i.e.*, the first portion of labour and capital applied to the poorest land under cultivation will yield an increment equivalent to that yielded by the last portion applied to the better grades of land.........Specific rent is always an excess over the product of marginal labour and capital. Under normal conditions, this marginal expenditure occurs both in extensive and intensive cultivation and the marginal increment of product is derived in part from no-rent land, in part from no-rent uses of land."

* Palgrave puts it very tersely when he says that 'the essential underlying basis of rent is this difference of return to equal effort, and the amount which rent can reach is measured by the amount of the difference.'

found in the agrarian history of England in the latter half of the eighteenth century, during which rents increa ed with the productivity of the land, though no part of the capital which thus added to its yield could be justly said to have earned less than before. There is, moreover, the objection that in many instances it is not so much the magnitude of the inequality in the returns to successive doses of capital as the number of doses which it is profitable to apply that tells in determining rent. And the experience of owners of real property in urban areas seems to justify such a contention. It has also been said that Ricardo's illustration leaves us in the dark about the motives which prompt the farmer to push cultivation so far as to cut down his earnings from 100 qrs. to 85 for every outlay of £1000. But these objections do not affect the validity of Ricardo's theory, though they serve to bring out the defects in his enunciation of it. The limit to investment in any line of productive work is prescribed by the conviction that further investment will not be sufficiently remunerative, and hedonic motives dictate the application of capital up to this limit. So the last pounds that the farmer lays out in his business are so spent because he believes that he will be at least compensated for the outlay. Here then do we get a test of what will satisfy him, and if the rest of his investment brings him more than this rate of repayment, competition will bring about the transfer of this surplus to the landlord. Hence if the facts and motives that

govern industrial life justify an analysis of the farmer's total investment into a number of units of capital successively applied with equal expectations of profit, it matters little how the rate of return declines in his undertaking or whether it continues to be uniform up to a certain point, for there must be one among the units which yields less than the rest ; and it will reveal, according to Ricardo, the standard of profit with which he will be contented and so determine the amount of rent which he can afford to pay. It is not, indeed, clear from Ricardo's illustration, why increase of population should compel him to be satisfied with a lower scale of remuneration. And as a matter of fact, mere increase of population has no such tendency to cut down the rate of profit. But here, again, it is Ricardo's aphoristic and elliptical way of stating his case that is responsible for the misapprehension. What he must have meant is that the growth of population causes a rise in the value of agricultural products, so that 85 quarters become worth as much to the farmer under the changed conditions of which he speaks as 100 quarters were before and 100 quarters become *ipso facto* worth much more.* Thus a surplus appears in the return to the first dose

* Ricardo seems to invert the proper order when he says,—
"When land of an inferior quality is taken into cultivation, the exchangeable value of raw produce will rise because more labour is required to produce it."—*Principles of Political Economy and Taxation*, edited by Gonner. Page 49.

of his capital without any change in the current rate of profit, and this surplus he is obliged to surrender to the landlord as a result of competition.

Apart, however, from these defects in Ricardo's manner of stating his theory, there is a certain feature of it which must stand in the way of its acceptance as a satisfactory explanation of rent. 'Rent', he says, 'invariably proceeds from the employment of an additional quantity of labour with a proportionally less return.' But the income from this additional investment only measures and can not be said to fix the rate of return that will be considered adequate.* So the problem still remains,

---

But here, again, utility is taken for granted and the influence of cost of production is laid stress on because it has a peculiar significance in the case of foodstuffs and raw materials additional supplies of which have to be extorted from nature at a more than proportionate increase of cost. His language, however, is certainly misleading. The sequence of events as well as the distinction which he emphasizes and probably over-emphasizes is presented more clearly and correctly by Nicholson in the following words :—

"The shortness of supply raises the price, and the rise in price renders it profitable to resort to worse land......With demand unslackened, and the arts of production stationary, this worse land can be profitably cultivated.........In the typical case of manufactures, shortness of supply would also raise the price, but in this case the supply would eventually be increased at the same or at a decreasing rate.—*Principles of Political Economy.* Vol. I. Page 403.

* Probably this is all that is claimed by Mr. Hollander when he felicitously characterizes the Ricardian doctrine as the 'synthesis of a theory of differential costs in extensive cultiva-

—what is it that determines this rate? And Ricardo's analysis of the farmer's outlay into a number of units of capital does not bring us nearer to a solution of it. So all that can be claimed for this scientific subtlety, is that it is a method of calling attention to the controlling influence of the law of diminishing returns in agriculture. And even as such, it has the appearance of mathematical exactness only in the dynamic condition contemplated by Ricardo; for where there is a static adjustment of the relations between the different agents of production, it must be difficult to calculate the return to the so-called last dose of capital. Moreover, the return is in no circumstance correctly obtained by subtracting the capital employed and used up from the value of the produce which is credited to it; for the additional produce must involve additional exhaustion of the soil, which has to be repaired and for which, therefore, an allowance has to be made in determining the cost of production. Every intelligent farmer does, indeed, take into account the cost of restoring to the land what it loses in bearing crops. But not even the most intelligent of the class can calculate with any degree of precision the injury which the soil sustains in co-operating with each dose of capital which is employed on it. In explaining,

---

tion and a theory of diminishing returns in intensive cultivation.' But there are certainly passages in the *Principles* which lend themselves to a different interpretation.

therefore, the phenomenon of rent, it is simpler and less open to objection to say that every farmer expects to earn the usual percentage of profits on the capital with which he works his farm, that self-interest prompts him to apply capital to it up to the limit of profitable employment and that whatever remains of the produce after he has been recompensed for this outlay is transferred from him by competition to the landlord. Thus the entire produce or its value is divided between them, and the division takes place according to a well-defined principle. The farmer's outlay must be replaced with ordinary profits ; otherwise he will not continue the business. But whatever remains of the produce after compensating him in this way will be wrested from him as belonging in a special sense to the land, just as interest and wages belong to capital and labour respectively. But this is exactly Adam Smith's position when he characterizes the landlord as a residual claimant at the distribution of wealth and defines rent as the highest price which the tenant can afford to pay in the actual circumstances of the land. And nothing is gained in clearness by stating the same truth in Ricardo's manner, which is moreover objectionable, because it singles out a particular cause of the enhancement of rents and elevates it to the rank of an indispensable condition.

Suppose an increased demand raises the value of agricultural produce or an improvement in the methods of production lowers the cost of growing it.

A new surplus will at once appear, which will go to the landlord, unless there is a general enhancement of the rate of profit. And this will happen even when the state of the agriculturists' art prevents a further application of capital to land. There may thus be an augmentation of the landlord's revenue, though the saturation point with regard to capital is not affected. It is possible, no doubt, to regard this capital by a stretch of reflective analysis as composed of a number of units yielding unequal products and thus to resolve the income from farming into a series of differential returns, which are equalized by the transference from each of them to the landlord of whatever is in excess of the lowest return. Such a view, however, of the origin and nature of rent represents the facts of agricultural economy only under the simplified dynamic conditions contemplated by Ricardo, while it obscures the affinity between rent and the hire of other instrumental commodities and diverts attention from the cardinal fact that the rate of profit on the capital of the farmer and, therefore, the amount of rent which he can afford to pay are determined more or less by the earnings of similar sums in other industrial ventures.

Besides, if the rent of land is to be regarded as originating in the unequal productivity of successive doses of the other factors of production, the same may be said of wages and profits. This may be seen at once, if the results are noted of the com-

bination of a definite volume of labour with successive doses of capital and, again, of an unchanging fund of the latter with varying amounts of labour. It follows, therefore, that rent is not scientifically marked off from the two other classes of revenue by calling it a surplus or differential income. Moreover, it is not, as Clark acutely observes, a true differential gain at all, for the series of differentials of which it is said to be made up, is obtained by subtracting the cost of production as determined by the rates of wages and profits in the general market from the products of all but the last dose of capital. This cost of production is, no doubt, equal to the yield of the marginal dose ; but they are equal simply because the cost of production prevents the farmer from going farther in the application of capital to land. It sets, therefore, the standard ; and rent is properly speaking the surplus that remains after subtracting it from the returns of earlier doses of capital, and not a true differential determined in the last resort by taking into account the unequal productivity of successive units of it.

So the view, that rent is the price of a differential advantage, is tenable only if we take in the entire field of industry for comparison, instead of limiting our attention to the unequal returns obtainable from different qualities of land or from successive applications of capital to the same land. The rates of profit and wages are determined in the

general market for capital and labour, and all that remains of the gross produce of any particular piece of land after allowing for the cost of cultivation as thus fixed, is its rent. This surplus appears almost everywhere in agriculture owing to a special circumstance, though its amount varies from land to land, being determined in each case by the excellence of the land for purposes of production. It is, no doubt, possible to imagine a state of things in which rent does not figure in the distribution of wealth ; but when it appears, it does so not merely because the principle of diminishing return comes into operation, but because for one reason or another there is a relative scarcity of land. Too much has been made in explaining the genesis of rent of the familiar experience that the productivity of capital decreases with every fresh application of it, for it is quite as noticeable in other branches of industry as in agriculture. You cannot, for instance, increase the labour force or machinery in a spinning mill in good working condition without adversely affecting the rate of income from it. So if rent is to be differentiated from other sources of revenue, its rationale must be sought elsewhere. And, in fact, a much simpler explanation of it is that while land, like other economic goods, has a value because there is not enough of it to go round, its value appears to be determined in a different way, because its supply as an effective factor in production is less

amenable to the will of man than theirs.* Its owners are thus in a position of privilege, which enables them to take the fullest advantage of every augmentation of the demand for its produce. Labour and capital gain, no doubt, so far as the intensified demand furnishes additional employment for them. But their gain is limited by the correspondence that there must be between their remuneration in farming and in other lines of business. There are no assignable limits, on the other hand, to the benefit which landlords may derive from improvement in the demand for land or its products. And, indeed, it is quite conceivable that this demand may swell so far as to give a value to every bit of available land, however low it may rank in the scale of relative utility. For though some of it may be only marginal as compared with others, yet there is nothing to prevent them from being intra-marginal with regard to other capital goods, the supply of which may be increased to cope with an increase of demand. It follows, therefore, that the Ricardian concept of a no-rent margin is more strictly applicable to the latter than to land, for old machinery is constantly dropping to this margin while more up-to-date varieties are under competitive conditions taking its

* Gide accounts for this difference by observing that land is limited in quantity and is everlasting while the utilities which are obtained from it satisfy the essential and permanent wants of mankind. These characteristics explain also why its value rises with social and economic progress.

place in a manner that is obviously out of the question in the case of land.

Ricardo appears, moreover, to attach exclusive importance to supply as represented by the cost of production in enunciating his theory,* And some of his opponents have, therefore, met him by a reference to the economic common-place that the value of agricultural produce like that of every other commodity, is fixed by the equation of demand and supply. This comprehensive law, however, does

* The following extracts from Ricardo's correspondence with Malthus show that he was driven by adverse criticism just to admit that demand was a factor in determining price. In one of his letters he hazards the opinion that "M. Say has not a correct notion of what is meant by value when he contends that a commodity is valuable in proportion to its utility." "This," he says, "would be true if buyers only regulate the value of commodities.........but the fact appears to me to be that the buyers have the least in the world to do in regulating price; it is all done by the competition of sellers, and, however really willing the buyers might be to give more for iron than for gold, they could not because the supply would be regulated by cost of production.........You say demand and supply regulates value; this I think is saying nothing.........it is supply which regulates value, and supply is itself controlled by comparative cost of production." In the next letter however, he makes a rather unwilling concession to his opponents by observing.—"I do not dispute either the influence of demand on the price of corn or on the price of all other things : but supply follows close at its heels and soon takes the power of regulating price in his own hands, and in regulating it he is determined by cost of production."

not override the other principle, but only gives it its due place in the economy of the market. For it is the cost of production that determines the volume of the supply at different prices, and since the demand also varies with the price, this cost has a very real influence in the correspondence that is established between them. There is thus some justification for laying stress on it when dealing with the problem of rent. But Ricardo's references to it are calculated to convey the impression that agricultural prices are solely governed by it so that it determines in the last resort what the level of rents should be, while the truth is that it serves merely to explain one of the terms of the universal principle of supply and demand. This exclusion from view of the fundamental law is, no doubt, an instance of careless brevity; but Ricardo himself seems to be misled by it in some of his observations. He says, for instance, that improvements which "do not increase the productive powers of the land, but enable the farmer to obtain the produce with less labour" lower the money rent of land, though they may leave the corn rent unaffected. But so long as the supply remains unaltered, there is no reason why prices should go down, and if they maintain their old level, the surplus after meeting all legitimate costs must in consequence of the improvements increase. Farming would thus become a particularly lucrative business, but as "all extraordinary profits are but of limited duration," the advantage would

be transferred by competition to the landlords and would appear in the form of enhanced rents.

Some measure of practical importance, however, still belongs to the question whether rent is a component part of the cost of production and *ipso facto* an element in price-making. Ricardo's answer to it is quite explicit. "Corn," says he, " is not high because a rent is paid, but a rent is paid because corn is high, and no reduction would take place in the price of corn, although landlords should forego the whole of their rent." His position would be sound, indeed, if rent were only the price of a differential advantage enjoyed by the occupants of superior lands. If, however, there is a general element in rent, which is the outcome and index not of the relative excellence of particularly fertile lands but of the relative scarcity of land in general, then this element does enter into the cost of production and, therefore, into the price at which the demand is equated to the supply. It is quite conceivable, of course, that the abolition of even this general element would not affect the prices of agricultural produce, but would simply put up the rate of profits, so long as there was no augmentation of the supply. But this could not constitute a valid distinction between rent on the one hand and wages for instance on the other. For supposing agriculture could have its own rate of profit, uninfluenced by what the rates might be in other departments of industry, the remission of wages would like the

remission of rents simply enhance this rate, as prices would not alter so long as demand and supply remained unchanged. It has been contended, indeed, that wages unlike rent are a necessary item in the expenses of production, since labour must be paid if there is to be any production at all. But there must be a similar necessity for the payment of rent wherever land has been appropriated. So where landlordism is a feature of the social and economic arrangements, one of them enters as surely into the cost of production as does the other.*

* Quite a host of writers on Economics have pointed out that Ricardo's dictum is correct only if it means that 'differential gains do not affect subjective values.' Patten observes that 'if the marginal land used for gardening will yield a rent for wheat, the value of the marginal portion of garden products must equal the cost of labour employed plus the rent of the land when used for wheat.' And Hobson puts it even more explicitly when he says that 'it is only of unqualified or common agricultural land in a community which can obtain access to unused land, that it is true that rent forms no part of price.' There is, again, the testimony of Wieser that Ricardo's proposition that rent does not enter into costs can be legitimately applied only to land devoted of necessity to one distinct use, such as mines, vineyards and the like.' But he does not seem to go far enough, for it is not clear why the owner of a marginal mine should let it to others for the mere asking or work it himself when its exploitation will yield no more than what labour and capital can earn without having recourse to it. There is at any rate the assumption that the supply of the marginal commodity is unlimited, so that appropriation is ineffective. Where, however, there is appropriation

And even in countries in which landlordism is unknown, rent is an element in cost if owing to the impossibility of increasing the stock of land in response to the enhanced demand for it, the farmer's earnings are higher than those of people with similar resources in other industrial ventures, for his inflated income is really profit at the usual rate augmented by rent. "Rent is paid," says Ricardo, "because corn is high"; but corn is high because there is not enough of the right quality of land to go round. It is the relative scarcity of land, therefore, a scarcity

---

or land, though free, is not absolutely required for earning the wages of labour and profits of capital, it will not be utilized unless it is expected to yield a net product. This expectation, therefore, does affect the price, and where there is landlordism, it takes the form of a decision to charge a price even for what would otherwise be the marginal land. So Palgrave is right when he remarks that the price of the product is 'affected by rent, if the existence of rent operate to stint the supply.' Hollander, on the other hand, defends Ricardo by observing that 'the consideration that marginal land pays rent is no more evidence of the fact that rent to this extent enters into marginal or normal cost than the existence of a body of no-rent land is essential to the law of rent itself.' The cost of the marginal product just remunerates the final dose of labour and capital which is applied to land of every variety and 'into this cost rent does not enter.' But this is merely a verbal proposition of no scientific importance or practical utility as it serves no better purpose than to call attention to the postulate of Political Economy that self-interest dictates the application of capital and labour up to the limit beyond which a further application of them will be unprofitable.

which may be due to one or the other of two causes, that is responsible for high prices and high rents. And as this scarcity increases with every increase in the demand for land or its produce, progress and prosperity have, so far as they accentuate this demand, a tendency to improve the condition of its owners at the expense of the rest of the community. Ricardo arrives at this conclusion and, in fact, repeatedly states it* with remarkable emphasis and clearness ; but his treatment of rent as a differential return is certainly not the simplest or most convincing way of establishing it.

Rent, according to Ricardo, is "a creation of value but not a creation of wealth." And he observes in support of this view that if the price of corn should go up from £4 to £5 per quarter, the augmented price will mean no real addition to the wealth of the community, for though it will enable the landlords who will ultimately benefit by the enhancement to obtain in exchange for their share of the produce more of the necessaries and conveniences of life than they used to do before, yet their gain will be offset by the loss of those who have to buy corn at this higher rate. Ricardo's position is unassailable here, for rent is only an item in the distribution of wealth, and the mere fact of its distribution among different classes certainly can not improve it.† But if Ricardo means, as he seems

* The following quotation from Roscher's *Principles of Political Economy* puts this view as clearly as possible :—"Is

sometimes to do, that whenever there is an improvement in the income of the landlords, there is a proportional injury to consumers, he suggests more than he can prove, for a rise in rents may synchronize with a fall in the price of agricultural produce, when owing to some remarkable improvement in the art of husbandry, the increased yield of the land or the diminished cost of production more than makes up for the decline in its money value. He takes it, however, for granted that the immediate effect of improvements must be prejudicial to the landlords, and he is able to do this, because he completely ignores the circumstances that usually accompany improvements and even some of their almost inevitable consequences. "If," says he, "a million of quarters of corn be necessary for the support of a given population, and it be raised on land of the qualities of No. 1, 2, 3; and if an improvement be afterwards discovered by which it can be raised on No. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall

---

rent an addition to national income? Ricardo answers this question in the negative, and says that it takes from the consumers what it gives to the owners of land, and that it increases only the value in exchange of the national wealth. It is evident that as thus stated, the question is not properly put. Neither interest on capital nor wages are any addition to a nation's income but, like rent, only forms of trade, by means of which that income is distributed among the individuals constituting the nation."

of rent ; for No. 2 instead of No. 3 will then be cultivated without paying any rent ; and the rent of No. 1 will be the difference only between No. 2 and 1." Ricardo evidently supposes here that the demand for foodstuffs is absolutely inelastic, or to put it in his own words, that "with the same population and no more, there can be no demand for any additional quantity of corn." This, however, is an unwarrantable assumption, for though it is quite possible to completely satisfy physiological wants, yet in no community has the point of satiety been generally reached with regard to them. Hence the demand for corn will in all likelihood increase with a fall in its price ; and such a fall must result from the superabundance of supply and reduction in the cost of obtaining it. Thus a readjustment may take place on a new price level which would still permit No. 3 to be cultivated, because the decline in price has been accompanied and, indeed, conditioned by a saving in the expenses of production. There is also the assumption in Ricardo's forecast that the improvement is equally applicable to all classes of land, and that it is adopted with a rapidity and ease that prevent the growth of population from overtaking the increase in the means of subsistence.*

* There are, as Marshall observes, three large assumptions in Ricardo's estimate of the effect of improvements. They are, —(1) any given improvement must be of equal service to each particular piece of land; (2) the demand for corn has no elasticity, and (3) where the same produce is obtained with less

If, however, the improvement is of a kind which may be introduced with advantage only on land of the first quality, and if the additional produce obtained by means of it is not large enough to remove altogether the necessity of cultivating land No. 3, rent, instead of declining, will for obvious reasons exhibit an upward trend. Besides, even if there is a recession of the margin like that contemplated by Ricardo, it does not follow as a matter of course that land No. 2 will for any length of time continue to be rent-free. What he says is, on the face of it, true only of the period of transition during which the drop in price caused by excess of supply cuts down the income from farming to such an extent as to lead to the abandonment of land No. 3 and to make it difficult for the cultivators of No. 2 to pay their rents. But he does not explain why the depression should continue after equilibrium is restored; and such an explanation is required as according to him the readjustment takes place by a curtailment of the supply to the dimensions of the previous demand. The truth is that for the mere appearance of mathematical simplicity, he rules out of sight those motives and forces that ultimately determine economic relations. If rent is only an economic concept and is, moreover, another name for the difference between the produce of land No. 2

capital, the returns to the doses are increased, not in like proportions but by equal amounts.

and of land No. 3, so far as the former is concerned, then rent will, of course, automatically disappear when No. 3 passes out of cultivation and it is barely profitable to cultivate No. 2. But it is more than likely that in the actual industrial world, wages and profits will be cut down before the rent is completely wiped out, for the staying power of the landlords gives them an obvious advantage in bargaining over labour and capital; and if there is a superabundance of land in consequence of the improvement, there is also a plethora of capital and labour, which is not likely to disappear so easily as Ricardo seems to suggest when he says that it will be absorbed in some other industry and so will not prevent or retard the downward movement of rent unless there is an improvement in the demand for the raw material of manufactures.*

---

* Pierson exposes the weakness of Ricardo's position by following his train of reasoning and pointing out what is tacitly assumed in it.

"Suppose," says he, "three classes of land of equal areas, A, B and C. Class A produces 100, class B 80, and class C 60 equal qualities. Payment for capital and labour amount in each case to 60, so that the state of things is as follows:—

	A	B	C	Total.
Yield of land	100	80	60	240
Less, for capital and labour	60	60	60	180
	40	20	0	60

By means of improved methods it has been found possible to make each kind of land produce an additional 30 quantities,

These observations, however, must be taken as simply supplying the conditions that usually affect and often neutralize the tendency of improvement to which Ricardo gives undue prominence. They cannot impugn the substantial accuracy of the conclusion as long as his premises are granted. These involve, no doubt, large assumptions; and their want of correspondence with reality is mainly responsible for the note of discredit with which his conclusion has been often received. But Ricardo's critics are not quite fair to him, when they deny all scientific interest and practical importance to his estimate of the consequences of improvements, on

---

but according to Ricardo this will not result in increased production, as cultivation will now be confined to

A which will in future yield 130 quantities.
B „ „ 110 „

it is evident that this result can only be brought about by combination, since in the ordinary course of events a different result was to be expected.........There is another thing in Ricardo's proposition which is entirely arbitrary. According to him the state of things will in future be as follows:—

	A	B	Total.
Yield of land	130	110	240
Less, for capital and labour ...	110	110	
	20	0	

Whence the increase from 60 to 110 in the number of quantities allotted to capital and labour, though production has remained the same, prices, therefore, have not dropped, and, moreover, all the farmers and labourers have been turned away from land C?"—*Principles of Economics.* Vol. I. Page 112.

the ground that it is based on an extremely hypothetical treatment of his subject. Ricardo's manner of isolating an economic phenomenon and studying it *in vacuo* as it were has its advantages, because it reveals more clearly than anything else can do the character and tendency of the phenomenon. This character may be obscured by the complexity of economic conditions and this tendency may be thwarted or moderated in the majority of cases by the operation of antagonistic forces. But it would be unscientific and even unpractical to doubt their existence only because they are not apparent in the usual consequences of the economic phenomenon under investigation. Agricultural improvements exercise as a matter of fact a two-fold influence on rent. This influence is favourable so far as they augment the production and sinister at the same time in as much as the augmented production tends to lower prices. The resultant, therefore, in any particular case is beneficial or otherwise according as one or the other of the two influences predominates. Ricardo seems to have thought that the comparative rigidity of the demand for foodstuffs must lead to a considerable drop in their prices whenever improvements increase their production*

* This view is expressed in its extremest form in the Essay on the Low Price of Corn. He says there,—"If the interests of the landlord be of sufficient consequence to determine us not to avail ourselves of all the benefits which would follow from importing corn at a cheap price, they should also influence

Such a depression, however, is not always in evidence ; but where it is, the entire benefit of the improvement goes to the consumer, while the landlord suffers a real, though it may be, temporary loss. For there is a limit beyond which wages and profits cannot be cut down, and rent must be reduced, if not quite wiped out, when this limit is passed. Ricardo, therefore, is not wholly wrong when he maintains in opposition to Adam Smith that progress in the art of husbandry and, it may be added, of transport inflicts an injury on landlords.

A similar conditional validity must also be conceded to Ricardo's observations regarding the effect of the growth of population on agricultural prices and rent. With every increase in numbers, the prices of foodstuffs and rents rise, according to him as a result of the difficulty experienced in "providing food for the augmented population." It has been contended on the other hand that increase of population renders possible a better organization of industry and a more thorough division of labour and so enhances the efficiency of capital. Where this happens, the additional demand may surely be met without an increase in the cost of production. But

---

us in rejecting all improvements in agriculture and in the implements of husbandry." But he subsequently revised his opinion and came to the conclusion that though the immediate effect of improvement must always be injurious to the landlords, yet it would ultimately enable rents to soar higher than they might have otherwise done.

Ricardo himself did not altogether overlook the possibility of overcoming successfully the difficulty created by 'the niggardlines of nature.'* And if due allowance is made for his want of exactitude and clearness, all that we should be warranted in concluding from his remarks is that unless improvements and organization provide an adequate set-off, increasing quantities of food must be obtained by a more than proportionate increase of capital and labour, so that prices and rent will rise in consequence.

It must be observed, however, that Ricardo confines his attention to one out of a number of conditions each of which may lead to an enhancement of rent.† It rises, as he observes, when in order to

* Take, for instance, the following sentences from his Essay on Protection to Agriculture :—"In the progress of society there are two opposite causes operating on the value of corn; one, the increase of population and the necessity of cultivating at an increased charge, land of an inferior quality, which always occasions a rise in the value of corn; the other, improvements in agriculture or the discovery of new and abundant foreign markets, which always tends to lower the value. Sometimes one predominates, sometimes the other, and the value of corn rises or falls accordingly."

† Ricardo was not content to let the necessity of employing less productive industry merely rank as one of many possible causes of rise of rent. He endeavoured to disprove the existence of any other causes. One of the other causes suggested by Malthus, as we have seen, was a fall of wages. In the *Essay* Ricardo says that a fall of wages could not raise rent, and would only raise profits......Another possible cause suggested

cater for a growing population additional supplies are wrung from nature at an increasing cost. But it may also rise when foreign trade creates a demand for the surplus produce of favoured tracts or improved methods of exploitation enable the cultivator to earn a larger income without adding to his outlay. And there is also the possibility of enhancement where owing to the decline of industries, increasing numbers are thrown on agriculture as their only resource. And where this happens, the augmentation of rent is only the counterpart of a downward movement of the rate of profits caused by the relative scarcity of employment among certain classes of producers and not by a relative scarcity of food supply for the entire community. We are thus brought back to the fundamental principle that since rent is only the difference between the value of the produce and the cost of obtaining it, it moves up or down with every fluctuation of that value, however caused and with every change in the scale of expenses and the normal rate of profits, unless they happen to neutralize one another. When thus stated, it sounds, indeed, like a commonplace of economics ; still it can not be stated too often because it forms the core of truth in the circumstantial account that Ricardo gives of the effect of

---

by Malthus was improvements in agriculture. This cause also Ricardo dismisses very summarily.—Cannan, *Theories of Production and Distribution*. Page 321.

increase of population on rent. He lays great stress on it while he overlooks other conditions which exercise a similar influence because they were not exemplified in the England of his day* and also as they did not square with his favourite idea that movements of rent are, if not caused by, at least reflected in the shiftings of the margin of cultivation. Moreover, it never occurs to him, because he is pledged to the narrow conception of rent as a differential return, that it may in its turn determine wages and profits whenever the appropriators of land are in a position to demand a price for every bit of it that may be required for enjoyment or production.† If rent is only a differential return, there is, of course, no way out of the conclusion

* Clark observes truly that "the impulse to study rent came to him from a dynamic fact—namely, the increasing density of population and the increasing cost of food products that is traceable to the action of the law of diminishing returns."

† Walker, who accepts the Ricardian theory of rent admits at the same time that the concentration of real property may injure cultivators. His words are,—"Two of the four classes, *viz.*: landlords and capitalists, clearly occupy a position of what may be called economic advantage. They have at their command certain material agencies of production by withholding the use of which they can inflict a relatively greater injury upon others than they would themselves suffer.........It is true that, unless the landlord find a tenant, he can have no rent. Yet a landlord who has five farms to let may put a great pressure upon each and every one of six would-be tenants. Moreover, the landlord is, in general, much more wealthy than his tenant, and is thus able to stand longer out of his remu-

that it is merely a surplus which can in no sense control wages or profits or prices, but is itself entirely governed by them. It appears, however, to be a determining influence that in certain circumstances may greatly limit wages and profits, if it is understood to denote the price, great or small, which has to be paid for the use of the so-called original and indestructible properties of the soil to its appropriators.* Ricardo rules these circumstances out of court under the impression that they are nowhere in

---

neration, in case there comes to be a contest between the two as to the terms on which the land shall be rented. I might add that, if a given farm be not rented at all, for a season, it may not altogether be a loss to the owner. The orchard will bring forth its crop of fruit without the intervention of a tenant; the grass will grow as thick and high as usual, on the mowing; the wood lots will all the time be acquiring value; the arable lands will have a rest which it might possibly have been good policy to give them, even at the sacrifice of rent."—Walker, *Political Economy,* 3rd. edition. Page 280.

* Walker gives us a comparative estimate of the effects of landlordism under different conditions, which is very different from the colourless observations of Ricardo on the subject. He says,—"In a community like the United States, or Canada, or Australia, the landlord may make the utmost out of his economic position without working industrial injury to the tenant, owing to the mobility of the population, their readiness and resourcefulness, their self-reliance and economic aggressiveness. In countries occupied by populations of a lower industrial character, we saw that, unless the constraints of law or public opinion intervene, the vast economic advantage possessed by the landlord class, as against a peasantry ignorant, inert and perhaps numerically in excess, is likely to operate with

evidence. But even if their absence is taken for granted for the sake of argument, the exclusive appropriation of the most important requisite of production and the consequent emergence of rent cannot fail to affect the rates of profit and wages except when industrial conditions deprive the appropriators of all power to influence the value of land by limiting its supply. It is not strange, therefore, that Ricardo's theory has been characterized as a piece of casuistry which by its brilliance disguises its total want of correspondence with the actualities of industrial life. And though there is an element of exaggeration in this judgment on the work of a celebrated economist, yet it must be said that Ricardo's observations light up only a portion of the road and leave us in the dark exactly where the most knotty problems of distribution crop up and demand a solution.

Many of the observations of Ricardo on the subject of rent are, indeed, inconclusive and at variance with facts. But he called attention to the fact that the interests of the landlords are not always coincident with those of other sections of the society.* He dispelled also extravagant notions

---

increasing severity, to impoverish the tenant class and to ultimately reduce their industrial efficiency, through deprivation of necessary clothing, food and shelter, as well as through loss of hopefulness and self-respect. We saw that this might go on until the last stage of human misery should be reached."—*Political Economy*. Page 282.

* *Vide Principles of Political Economy*, edited by Gonner.

about the capacity of agriculture to ensure the continued prosperity of a nation. No one succeeded better than he in proving that the inevitable tendency of an increase of population was to benefit the landlords at the expense of the community. Improvements in the art of husbandry might counteract it and enable every class to flourish ; but it was there and would make itself felt whenever they were not in evidence. Even progress in wealth was, as he showed, calculated to improve the condition of rent-receivers by cutting down the rate of profits. Thus real prosperity might contain in itself the germs of its own destruction.* He was able further to prove in opposition to Adam Smith that high prices of foodstuffs were not an unqualified boon to producers, in as much as the intensified demand of which they were the consequence led to an increased demand for land and thus transferred the

---

Page 231 "Corn", says Ricardo, "can be permanently at an advanced price, only because additional labour is necessary to produce it.........The same cause invariably raises rent; it is therefore for the interest of the landlord that the cost attending the production of corn should be increased. This, however, is not the interest of the consumer."

* For the capitalist entrepreneur at least. His theory of progress was that the rise of rent and wages and the fall of profits are generally the inevitable effects of the same cause—the increasing demand for food, the increased quantity of labour required to produce it, and its consequently high price." He says elsewhere that "the rise of rent is always the effect of the increasing wealth of the country.'

advantage from them to a class of monopolizers. These were his real contributions to the subject; but he sought to buttress them by a theory, which was inaccurate, artificial and laxly worded.*

In spite, however, of its imperfections, it became the reigning doctrine in the field of economics soon after its enunciation, because it called attention in an impressive manner to the conditions of agricultural exploitation which obtained in the England of Ricardo's day owing to the rapid development of manufacturing industry and an equally rapid growth of population. Its critics were not, indeed, slow to point out that even as an interpreter of economic phenomena in advanced and progressive communities, it gave undue prominence to a certain tendency and thus failed to make adequate allowance for other forces and tendencies which are equally at work wherever there is progress. But these animadversions received an effective silencer for the time being in the masterly presentation of the theory by John Stuart Mill. Seldom in the history of scientific enquiry has the teacher of new truths been so fortunate in his apologist as Ricardo. Mill's unquestioned mastery over thought and style and his especial skill in dialectical fence gave him a decided advantage in

* Senior was hardly unfair when he said,—"He (Ricardo) is perhaps the most incorrect writer who ever attained philosophical eminence; and there are few subjects on which he has been guilty of more faults of expression than on rent."

meeting the objections of those who cavilled at his master's doctrine as lacking in thoroughness or as dealing with conditions which had the remotest resemblance with the realities of industrial life. At the same time his broader outlook and sympathetic appreciation of every shade of opinion enabled him to correct to a certain extent the inexactness of Ricardo's conclusions and their too obvious reference to rarefied facts, by importing ideas which were foreign to Ricardo's mode of thought. He starts with the definition of Adam Smith, that rent is the price paid for the use of land to those who 'in the arrangements of society have exclusive power over it,' and he infers therefrom that it is the effect of a monopoly even when its owners do not act in concert. 'The reason,' as he says, 'why landowners are able to require rent for their land is that it is a commodity which many want and which no one can obtain but from them.' This is an acknowledgment of a fact which is patent to ordinary observation, but which Ricardo turns his back upon in order to fix his attention on the natural limitation of supply of every grade of land. Mill calls attention also to the analogy that there is between rent as a differential return and the special profit earned from patent right or from superior business talents or business organizations. He thus tries to remove the glaring imperfections of the Ricardian theory, its narrowness and viciously hypothetical character. But it cannot be said that he undertakes a searching examination

of its grounds in the light of these ideas or follows far enough the lines of enquiry indicated by them.

Mill tries to mark off the economic character of land by observing that it is not like capital susceptible of indefinite increase and that the demand for the more valuable portions of it is never fully met by the supply.* It is a distinction which does not bear scrutiny, though it has found ready acceptance as a plain statement of a palpable fact. Capital has, no doubt, rapidly increased in advancing communities, and even after centuries of growth, there is no evidence yet of a slowing down of the rate of progress. But it can be indefinitely multiplied only if there is no limit to man's power of creating utilities out of a limited stock of land, which must always be the ultimate source of wealth. Experience, however, as well as a careful estimate of our resources and limitations forbids the assumption that there can be a considerable increase in the volume of capital at any particular time. And though the obstacles to such an increase are over-

* Mill has also another distinction in view. Land is imperishable, while capital is, in his opinion, destined for destruction. But when he observes that raw materials cease to exist as such when they are transformed into finished goods, that tools wear out and buildings perish, it does not occur to him that fixed capital does not serve its purpose by being destroyed, that, in fact, its liability to destruction is a defect which impairs its efficiency, and that land itself is not free from this defect, since its powers decay and have to be renewed by human effort.

come with the onward march of civilization, yet there must be an impassable limit somewhere unless we suppose that there are no bounds to the capacity of land for yielding supplies of raw material and sustenance for labour. Such a supposition, however, does away with the distinction between land and capital, for so far as the latter consists of instruments of production, its growth is estimated not with reference to their number or dimensions but by taking into account their efficiency in creating the utilities that correspond to our manifold wants. If, for instance, in taking stock of the capital embarked in the weaving industry, we say that this is much larger than the capital which was invested in it a couple of centuries ago, we do so not because the power looms of today outnumber the hand-looms that existed in almost every village in an earlier stage of industrial evolution, but because they are able to cater for much more extensive markets. There is thus precisely as much reason for maintaining that advancing communities are richer than before in their stock of land as there is for the well-attested observation that their capital has immensely increased in modern times.* That the extent of land has remained unchanged is a thing to be noted by geographers ; the economist is con-

* Gide points out for instance that in France the return per hectare increased from 12 hectolitres to 17-2/3 hectolitres or by nearly 50 p.c. between 1820 and 1911 and attributes it to improvement in the quality of the soil brought about by

cerned with its value or efficiency and not with its superficial area.

It may be contended, indeed, that the sustained rise in the value of land in progressive countries has been due to its increasing scarcity and not to its augmenting efficiency in the creation of wealth. And if this position is taken to express the entire truth on this contentious question, which it does not, then their stock of land has to be measured, of course, for purposes of comparison in acres and square miles. Moreover, even then we are likely to get, as Mill takes care to point out, an exaggerated estimate of their resources, for while the total area of land is large though limited, the extent of what may be profitably worked is by no means so extensive. He seems, however, to overlook here what he says about the ameliorating influence of capital when sunk in land. It makes no difference, according to him, whether the soil owes its fertility to nature or to the industry and art of man, and he observes also that with the increasing application of science to agricultural industry, lands are frequently passing from the low level of infertility to a higher grade of excellence in the scale of productive power. But whenever this takes place, the bounds are extended of the available supply of land by the transforming

---

more scientific methods of exploitation. An increase in productive power of this kind practically amounts to an increase in the supply of land as an economic good.

influence of human labour. Science and art have, it is true, been laid under contribution with greater success and facility in improving other instrumental commodities. But the difference is only one of degree and cannot, therefore, justify the placing of land in a separate category by itself. There is, indeed, an ultimate and impassable limit to the total supply of land. But this limit has not yet been approached, nor is it likely to be reached except in a distant future which falls outside the bounds of practical forecast, while every improvement widens the distance between it and the actual area of exploitation. A similar limit, on the other hand, exists probably with reference to the multiplication of all sorts of capital goods and is at least as much in sight in the case of some of them. Land, therefore, is not marked off from them with scientific precision by laying stress simply on the absolute fixedness of its total supply.

It is very likely the consciousness of its inadequacy as a principle of classification that leads Mill to explain and qualify his statement by an elaborate comparison. "The limit," says he, "to production from the properties of the soil is not like the obstacle opposed by a wall, which stands immoveable in one particular spot and offers no hindrance to motion short of stopping it entirely. We may rather compare it to a highly elastic and extensible band which is hardly ever so violently stretched that it could not be stretched any more,

yet the pressure of which is felt long before the final limit is reached and felt more severely the nearer it is approached." All the details, however, in this long-drawn similitude are applicable to the conditions of supply of every kind of capital goods, for an increase of it must mean a more than proportionate increase of cost so far as it involves an augmented consumption of raw materials. Improvements in organization and mode of working may, no doubt, successfully combat the obstacle thus presented. But that a similar success does sometimes attend man's endeavour to wring larger supplies of food and materials is admitted by Mill himself, when, in speaking of the effect of improvements on rents, he observes that they "seldom if ever throw land out of cultivation, but enable worse and worse land to be taken in for the supply of an increasing demand" at a uniform cost. Improvements in the quality of the soil or in its accessibility have, indeed, been less frequent and less striking than those which have in the course of the last two centuries revolutionized modern industry by a succession of remarkable inventions. But here, again, we come across a difference which is not a difference in kind and is, moreover, attributable in some measure to the laws and usages relating to real property. The land too is perfectible, though past experience seems to indicate that it is less so than the machines which assist labour in working up the materials obtained from it.

Mill holds that the law of diminishing return gives to the exploitation of land a character which is entirely its own and affects other industries only in so far as they are dependent on it for their materials. As enunciated by him, it points out how production is limited by the properties of the soil except where their reluctance to yield additional supplies is overcome by the progress of civilization. "After a certain and not very advanced stage," he says, "in the progress of agriculture, it is the law of production from the land that in a given state of agricultural skill and knowledge, by increasing the labour, the produce is not increased in an equal degree ; doubling the labour does not double the produce ; or to express the same thing in other words, every increase of produce is obtained by a more than proportional increase in the application of labour to land." As a proof of this refractoriness of nature, he refers to the fact that in almost every community, soil of various degrees of fertility is cultivated for the purpose of raising the necessary produce, and draws the obvious inference that the owners or farmers of the best lands are not able "to undersell all others and to engross the whole market" only because they cannot obtain an additional supply from their holdings except at a cost which is more than proportional to the increase. But the principle of diminishing return shows itself not merely in preventing a more lavish expenditure of capital and labour, as its sinister influence is felt

also in the intensive culture of the soil, which is both "a symptom and an effect of the more unfavourable terms which the land has begun to exact for an increase of its fruits." Mill compares it with the careless farming in the United States and comes to the conclusion that in spite of the lightness of the crops and the untidiness and apparent wastefulness of the American method, the response of nature must be more generous there than it is in an old country like England. His view is, therefore, apparently opposed to that of Carey, who maintains that the produce of the land increases in a greater ratio than the labour employed in working it on the ground that with the growth of the industrial resources of a community, cultivation travels from high and thin lands to the rich and water-logged areas in the valleys and near the banks of rivers. But in controverting the American economist's position, he makes a notable concession by observing that the law of diminishing return is not operative in the earliest stages and by taking his stand on the debatable ground that the lands still lying waste in old countries are for all times and purposes the least fitted for occupation.

It is strange that a mind so logical as that of Mill should have missed the import and practical bearing of the law of diminishing return when dealing with agricultural experience under dissimilar conditions. Carey's position does not affect its validity, if it is understood to mean that "the

produce of land increases *ceteris paribus* in a diminishing ratio to the increase in the labour employed," for all that he contends for is that the rate of return improves with an improvement in the resources and methods of those who exploit it. He suggests nowhere that husbandry is governed by the principle of increasing returns and so there is nothing in his account of its progress which is inconsistent with the position that in a given state of agricultural skill, knowledge and resources you cannot by augmenting the labour employed obtain a commensurate augmentation of the produce. Mill, however, instead of simply pointing out the irrelevancy of Carey's criticism, impugns the accuracy of his historical observations and in doing so takes up positions which are untenable. He says, for instance, that the superior lands have all been taken up in old countries and that it is only the poorer lands which still await reclamation. But it is not true that the relative excellence even in them of different kinds of land in respect both of fertility and accessibility is so unalterably fixed as to be incapable of being affected by improvements in methods of culture or transport or by changes in the demand for different varieties of produce. Nor is there any reason for conceding as Mill does that the principle of diminishing return is not operative in every stage of industrial evolution. The careless cultivation of American districts offers, for example, a more convincing proof of its influence than the

high farming of England and Flanders in the progressive extension of culture over fresh areas of virgin soil. The law is, as Mill himself observes, a regulating factor wherever the need has been felt of spreading out cultivation over any but the very best land, and so it is better illustrated where new areas are available for meeting increasing demands for agricultural produce than where owing to the impossibility of a similar expansion of the industry, the increasing difficulty in securing additional supplies is reflected only in the uncertain test of a rise in prices.

In its simplest and least objectionable form, the law is an expression of the universal experience that the produce cannot be increased beyond a certain point without a more than proportionate increase of cost. As such, it sums up two principles of fundamental importance, the validity of which is taken for granted in dealing with the most important problems of economics. The first of these is that the efficiency of labour and capital goods, like that of land, declines after a certain expenditure of energy. The ninth hour of labour is certainly not as productive as the first or the second ; and though the efficiency of machinery is not affected by anything corresponding to the irksomeness of prolonged activity, which sensibly tells on the fitness of the workman, yet it is said that continuous work without intervals in which the wear and tear might be repaired shortens its period of useful employment and thus adds to the cost of the service that is

exacted from it. The other law is that to obtain the best results in a given state of industrial efficiency, the different agents of production, *viz.* labour, capital, and land have to be combined in a certain proportion, deviation from which one way or the other immediately affects their combined efficiency.* But if the principle of diminishing return is to be resolved into these simpler and almost self-evident laws, Mill is certainly not justified in regarding it as the law of production from the land alone. He limits, however, its scope by extending its import so as to include the theory that in old countries increasing produce must be won by a more than commensurate increase of cost, unless circumstances which are more or less exceptional in their nature counteract the tendency of land to yield a decreasing return to successive applications of capital and labour.† He thus combines a uniformity

* Gide lays stress on the first law, while Carver gives prominence to the second. Both are in operation in every department of industry, and so it must be said that Gide's explanation of the principle of diminishing return is imperfect when he takes it to mean simply that 'beyond a certain point every increase in the return requires a more than proportionate expenditure of energy.'

† A similar view regarding the nature of agricultural advance is expressed even more tellingly by M'Culloch in the following lines. 'In manufactures,' says he, 'the worst machinery is first set in motion, and every day its powers are improved by new inventions and it is rendered capable of yielding a greater amount of products with the same expense.

which seems to be based on the unalterable scheme of nature with an imperfect generalization of the experience of advanced countries in the last two centuries. Agricultural improvements have, it is true, been less rapid or marked in this period than improvements in manufactures. But the pace may be quickened for aught that we know in the years to come, and if, on the other hand, there is a slackening of the rate of improvement in technique and organization, the supply of manufactures may fail to keep abreast of the demand in the way that it has done in the past. There is at any rate nothing in the nature of things which assures a continuous progress for manufacturing industry, while it prescribes as a condition of agricultural progress an ever-increasing strain on a limited productive power which is only partially and temporarily relieved by occasional and spasmodic improvements. Besides, the limitation, such as it is, is often due to the more or less accidental barriers to increase of production

. . . . In agriculture, on the contrary, the best machines, that is, the best soils are first brought under cultivation, and recourse is afterwards had to inferior soils requiring greater expenditure of capital and labour to produce the same supplies. The improvements in the construction of farming implements and meliorations in agricultural management which occasionally occur in the progress of society really reduce the price of raw produce, and by making less capital yield the same supplies, have a tendency to reduce rent. But the fall of price, which is permanent in manufactures is only temporary in agriculture."

imposed by customs, laws and usages. Mill himself makes a fatal admission in this respect when he attributes the stationariness of Irish husbandry to perverse social and political institutions and not to the sterility of nature, and observes that even in England at this late hour the yield of the land might be considerably increased if the laws and usages relating to real property and land tenure did not obstruct the free flow of capital to the land.*

No absolutely convincing argument can, therefore, be found in the application of the law of diminishing return or in the final limitation of supply for placing land under a different category from capital goods. Yet they are sharply distinguished from one another and differently classed not only in scientific terminology, but also in popular language, and even when they are regarded as equally indispensable factors of production. The truth is that the distinction answers to the all but universal experience that while progress in a comprehensive

* The law of diminishing returns, as enunciated by Ricardo, had at least the appearance of a scientific principle. It loses this appearance in the hands of Mill, when he observes that it is not operative in the earliest stages of industrial development, that even after that it is liable to occasional suspensions and that as a matter of fact it has not been much in evidence in the agrarian experience of England. These qualifying clauses amount, as Cannan truly observes, to a reluctant recognition of the fact that the law as understood by Ricardo and his father was not substantiated by the history of agriculture.

sense has tended to increase the value of land, it has so far generally reduced the cost of production of other instruments of production. But this distinction is not completely explained by simply observing that the extent and productiveness of land are limited. For it is in no small measure due to the nature of the demand for land and to an important feature of it as a productive agent which is barely and not very correctly indicated by saying that it can not itself be produced. Land, it must be always remembered, is a basic factor in production, for while it is needed for the satisfaction of those wants which are imperious and universal in their nature, the demand for every variety of consumption goods not excluding the costliest or the least used entails some additional demand for it. The market, on the other hand, for other instrumental commodities is determined by the market for the utilities that they create, and the demand for these is in its turn evoked and fostered in many instances by the supply. This is easily seen by comparing the list of things which are classed as comforts and luxuries today with a list of the articles that ranked as such a hundred years ago, and many of which have passed out of fashion for no better reason than the comparative ease with which other things that answer the same purpose are now produced. The demand, again, for land, so far as it is demand for extended surface, cannot obviously be met by the excess of the supply in places other than those in

which it makes its appearance. But the demand for capital goods is not demand for space in the same sense or to the same extent and their comparative mobility allows the augmentation of the supply wherever there is a relative scarcity. There is thus in the case of land besides the ultimate limitation of the total supply that is still inoperative, another and a much narrower limit in every locality which is in sight in some of them, while it has been actually reached in others. And the circumstance that the exploitation of land is still the most considerable industry even in advanced countries and that the market for its most important crops is not much affected by the appearance of new wants and tastes while it is steadily expanding in prosperous communities gives to the demand for land a character which is dissimilar in important respects to the demand for other commodities. For the industrial progress of most communities as well as the style of living that obtains in them is conditioned in a large measure by the nature and extent of their resources, while their demand for foodstuffs and, therefore, except where foreign trade meets it, the magnitude of their agricultural industry are not in the same degree governed by their stock of fertile and advantageously situated land, so that the pressure is always there on the soil for maintaining an increasing population by an increase of produce. Mill overlooks these points or probably assumes that they are implied in his observation that land is

limited both in extent and productivity. But they are no more implied in it than every thing is implied in a set of words which is too vague for purposes of scientific classification.

A similar lack of thoroughness is perceptible in Mill's observations on Ricardo's plea for distinguishing between rent proper or the price paid for the original and indestructible properties of the soil and the profit earned by the capital expended on it. They amount to a qualified acceptance of Ricardo's distinction, but on grounds which seem to warrant its complete rejection. Mill is of opinion that a line should be drawn between consideration for the use of farm buildings and the portion of the total payment to the landlord which is attributable to the capital sunk in improving the quality or accessibility of the land. And the first of these he would regard as ordinary profits or, since risk and trouble are, according to him, out of the question in the case, as ordinary interest on the value of the buildings, *i.e.*, "not on what it has cost to erect them, but on what it would now cost to erect others as good." It is not clear, however, why risk and trouble should be altogether absent from such an investment, since the buildings must cease to fetch an income if the land passes out of cultivation, while their value must rise when a different set of circumstances renders the exploitation of land a particularly profitable business. The buildings, says he, are not land, but capital regularly consumed and reproduced and so

the payments on account of them are strictly interest. Land they are not, it is true, but as farm buildings they are in request because and in so far as they facilitate the production of wealth from the farms of which they form a part, and so their value increases or declines according as the demand swells or shrinks for this species of wealth. It follows, therefore, that the reason does not exist which seemed to Ricardo to dictate the analysis of the undivided revenue of the landlord into two distinct factors, for each of them follows the vicissitudes of the other, governed as both of them must be by the value of the wealth which the land and the buildings combine to produce. Mill, however, rejects this view on the ground that the buildings are as distinct from the farm as the stock employed on it, and that, therefore, the payment for them can no more be called rent than "a payment for cattle would be, if it were the custom that the landlord should stock the farm for the tenant." But he overlooks here the obvious distinction that the cattle can never be the appendage of a farm in the same way in which houses situated on it are, and that nothing need prevent the tenant from having cattle of his own if such an arrangement answers better than a loan from his landlord while under no form of tenure of agricultural land has he the liberty to dispense with the buildings that are there and to put up more or less permanent structures for the purposes which they

are meant to serve. His position, however, appears still more untenable when in the true spirit of compromise he endorses the second thought of Ricardo on the subject and classes with rent the return to the capital, "which is spent once for all in giving the land a permanent increase of productiveness."* The instances are rare, in fact, in which capital succeeds in effecting a permanent transformation which will require no periodical or even occasional expenditure for its maintenance. But even if this objection is waived, it must be said that there is precisely the same justification for characterizing as rent the income from farm buildings as there is for denominating as such the revenue which is due to the ameliorating influence of capital that has been sunk in land, for both of them, "lose their character of profits and are governed by the principles of rent." "It is true," says Mill, "that the landlord will not expend capital in improving his estate, unless he expects from the improvements an increase of income surpassing the interest of his outlay. Prospectively, therefore, this increase of income may be regarded as profit, but when the expense has been incurred, the rent of the improved land is governed by the same rules as that of the unimproved." Here then we have a convincing argument against the proposal for drawing a line

---

* This second thought occurs in a note to the chapter on Poor Rates.

between the revenue which is attributed to the inherent properties of the soil and that which must be set down to the fertilizing influence of capital. But Mill fails to observe that it is equally cogent against his own distinction between the income from farm buildings and the rest of the income of the landlord.

Mill is of opinion that a just appreciation of the Ricardian theory of rent has been prevented not so much by the lack of clearness in its author's thoughts and his infelicitous way of expressing them as by an incapacity on the part of the general reader to comprehend the rigour of his logic and the mathematical exactness of his distinctions. Many, says he, have imputed absurdity to it because it has been assumed to imply that the cultivation of inferior land is the cause of rent, while according to Ricardo it emerges only when the necessity is felt of extending the margin beyond the bounds of the most productive land. But if there is this confusion in the minds of his readers, Ricardo is in no small measure responsible for it, since he says that "it is only because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality or less advantageously situated is called in cultivation that rent is ever paid for the use of it." Rent is here at any rate connected with an economic phenomenon which like itself is only a consequence of the difficulty experienced in augmenting the supply to

meet an increasing demand. And even if a saving clause of interpretation is supplied from the drift of his argument, there remains the objection that rent may continue to increase even when the appropriation of the surplus inferior land is rendered difficult by its extreme infertility. Moreover, where the conception of profit is introduced as it is in Ricardo's illustrations with a view to prove that rent is a residual share in distribution, there is little propriety in speaking of the necessity of an extension of cultivation as the cause of rent. The real *necessity under the circumstances is that of paying* a higher price for a commodity which has become relatively scarce owing to the increase of population, and this necessity it is which causes a surplus to appear in the hands of the farmers, while it generally permits at the same time an extension of the margin of cultivation. It is impossible, therefore, to exonerate him from all responsibility for the looseness of thought that prevails on the subject. There is a certain lack of clearness and precision in his own way of thinking, a tendency to confound the root cause of rent with the attendant circumstances which may serve only as a measure of its amount.

Mill renders a much greater service to Ricardo and to students of economics by a re-statement of the theory of rent than by the attempt to show that as originally enunciated it was free from the defects which have been attributed to it by its critics. He

poseessed in a pre-eminent degree exactly those merits of a writer which Ricardo singularly lacked, and so his exposition shows up not only what is valuable in the theory but also its imperfections and exaggerations. All the links in the chain of argument are held up to view in a light that exhibits the weakness of those which are weak, and the necessary provisos and postulates are supplied with an ease and lucidity that sometimes lead the reader to minimize their importance and even to assume that they are implied in Ricardo's slipshod presentation of it. So an examination of his theory of rent as the theory of his school is incomplete without some notice of Mill's amendment of it. This amendment, therefore, is given below in Mill's own words and with only a few insignificant omissions.

"As differences of fertility," says he, "slide into one another by insensible gradations; and differences of accessibility.........do the same; and since there is land so barren that it could not pay for its cultivation at any price; it is evident that, whatever the price may be, there must in any extensive region be some land which at the price will just pay the wages of the cultivators and yield to the capital employed the ordinary profit and no more.........It is evident also that the community needs the produce of this quality of land; since if the lands more fertile or better situated could have sufficed to supply the wants of society, the price would not have risen so high as to render its culti-

vation profitable. This land, therefore, will be cultivated ; and we may lay it down as a principle, that so long as any of the land of a country which is fit for cultivation and not withheld from it by legal or factitious obstacles, is not cultivated, the worst land in actual cultivation (in point of fertility and situation together) pays no rent. If, then, of the land in cultivation, the part which yields the least return to the labour and capital employed on it gives only the ordinary profit of capital, without leaving anything for rent ; a standard is afforded for estimating the amounts of rent which will be yielded by all other land. Any land yields just as much more than the ordinary profits of stock, as it yields more than what is returned by the worst land in cultivation. The surplus is what the farmer can afford to pay as rent to the landlord ; and since if he did not so pay it, he would receive more than the ordinary rate of profit, the competition of other capitalists, that competition which equalizes the profits of different capitals, will enable the landlord to appropriate it. The rent, therefore, which any land will yield, is the excess of its produce, beyond what would be returned to the same capital if employed on the worst land in cultivation."

"It has been denied that there can be any land in cultivation which pays no rent ; because landlords (it is contended) would not allow their land to be occupied without payment. Those who lay stress on this as an objection must think that land of the

quality which can but just pay for its cultivation lies together in large masses, detached from any land of better quality.........Inferior land, however, does not usually occupy without interruption many square miles of ground ; it is dispersed here and there with patches of better land intermixed, and the same person who obtains the better land, obtains along with it the inferior soils which alternate with it. He pays a rent nominally for the whole farm but calculated on the produce of those parts alone (however small a portion of the whole) which are capable of returning more than the common rate of profit. It is thus scientifically true that the remaining part pays no rent."

"Let us, however, suppose that there were a validity in the objection, which can by no means be conceded to it ; that when the demand of the community had forced up food to such a price as would remunerate the expense of producing it from a certain quality of soil, it happened nevertheless that all the soil of that quality was withheld from cultivation by the obstinacy of the owners in demanding a rent.........What would then happen? Merely that the increase of produce.........would for the time be obtained wholly (as it always is partially), not by an extension of cultivation but by an increased application of labour and capital to land already cultivated.........And when the impulse is given to extract an increased amount of produce from the soil, the farmer or improver will only

consider whether the outlay he makes for the purpose will be returned to him with the ordinary profit and not whether any surplus will remain for rent. Even, therefore, if it were the fact that there is never any land taken into cultivation, for which rent......... was not paid ; it would be true nevertheless that there is always some agricultural capital which pays no rent.........this capital being the portion last applied or that to which the last addition to the produce was due. But the same amount of demand and the same price which enable this least productive portion of capital barely to replace itself with the ordinary profit, enable every other portion to yield a surplus proportioned to the advantage it possesses. And this surplus it is, which competition enables the landlord to appropriate. The rent of all land is measured by the excess of the return to the whole capital employed on it above what is necessary to replace the capital with the ordinary rate of profit, or, in other words, above what the same capital would yield if it were all employed in as disadvantageous circumstances as the least productive portion of it ; whether that least productive portion of capital is rendered so by being employed on the worst soil or by being expended in extorting more produce from land which already yielded as much as it could be made to part with on easier terms."

"It is not pretended that the facts of any concrete case conform with absolute precision to this

or any other scientific principle.........It is not for example, strictly true that a farmer will cultivate no land, and apply no capital, which returns less than the ordinary profit. He will expect the ordinary profit on the bulk of his capital. But when he has cast in his lot with his farm, and bartered his skill and exertions, once for all against what the farm will yield to him, he will probably be willing to expend capital on it (for an immediate return) in any manner which will afford him a surplus profit, however small, beyond the value of the risk, and the interest which he must pay for the capital if borrowed, or can get from it elsewhere if it is his own. But a new farmer, entering on the land, would make his calculations differently and would not commence unless he could expect the full rate of ordinary profit on all the capital which he intended embarking in the enterprise.........When, too, the farmer class, having but little capital, cultivate for subsistence rather than for profit, and do not think of quitting their farm while they are able to live by it, their rents approximate to the character of cottier rents and may be forced up by competition (if the number of competitors exceeds the number of farms) beyond the amount which will leave to the farmer the the ordinary rate of profit.* The laws which we are

* Mill makes an exception where there is no occasion for making any. The peasant farmer expects to be remunerated at the rate which appears to be normal to him. Only his rate

enabled to lay down respecting rents, profits, wages, and prices, are only true in so far as the persons concerned are free from the influence of any other motives than those arising from the general circumstances of the case, and are guided, as to these, by the ordinary mercantile estimate of profit and loss. Applying this twofold supposition to the case of farmers and landlords it will be true that the farmer requires the ordinary rate of profit on the whole of his capital ; that whatever it returns to him beyond this he is obliged to pay to the landlord, but will not consent to pay more ; that there is a portion of capital applied to agriculture in such circumstances of productiveness as to yield only the ordinary profits ; and that the difference between the produce of this and of any other capital of similar amount, is the measure of the tribute which that other capital can and will pay, under the name of rent, to the landlord. This constitutes a law of rent, as near the truth as such a law can possibly be : though of course modified or disturbed in individual cases, by pending contracts, individual miscalculations, the influence of habit, and even the particular feelings and dispositions of the persons concerned."

---

of profit differs from that which will satisfy men who are more intelligent and resourceful. But Mill is prevented from recognizing this simple truth by his assumption that there is a uniform rate of profits. It prevents him also from observing that the rent demanded may in certain circumstances influence the rate of profit instead of being wholly determined by it.

Some of the features of this explanation of rent have been already examined, and others will be taken up for discussion later on. So we shall close this long chapter with a reference to those points which are best treated of here. The theory as enunciated by Ricardo was based on the assumption that land was not appropriated till the cultivator found that it might be profitably worked, and so he had no difficulty in concluding that the marginal land paid no rent. But his mere *ipse dixit* was not enough to convince his critics that such had been the course of history. He contented himself, however, with the statement that the principle which determines rent in old countries cannot be different from that which fixes it in the backwoods of America. Mill, on the other hand, attempts a more or less elaborate defence of it, though his proof is ingenious rather than conclusive. For the legal or factitious obstacles to which he refers must be conspicuously present wherever man has thought fit to hold all the available land in separate property. He considers it inconceivable, indeed, that all the land which would just repay the cultivator at the ruling price of agricultural produce may be withheld from cultivation by the proprietors unless a consideration is paid for it. But this is what must happen where there is no reserve fund of unoccupied tracts within easy reach, and the economic motive governs the action of the proprietors. Besides, even if any portion of the poorer soil, the produce of which is

required for maintaining the price-level, is withheld, the price will rise so far as to leave a surplus after repaying the cultivators of the rest ; and it matters little for the purpose of our enquiry whether this surplus remains in their hands or is transferred by competition to the landlords. There are thus serious objections to the acceptance of the Ricardian postulate, and Mill seems to have been not altogether insensible to them. So he offers a new definition of the no-rent margin to meet those who deny that there can be any land in cultivation which pays no rent. Where good and bad lands are included in a holding, the farmer, says he, pays a rent which is only nominally charged on the entire farm but is really estimated on the produce of those parts only which yield more than what is sufficient for remunerating him for his capital and labour. This, however, is hardly correct as the farmer will not take up the inferior land, nor will the landlord part with it unless both are convinced that they will not make enough out of the farm if its size is cut down to that of the superior land on it. The inferior soil is required in order at least to give full employment to the cultivator's resources, some of which will evidently remain idle if he elects to work the better land alone. So he has a good reason for preferring the larger holding to a smaller one. His reason, however, can have no persuasive power with the owner if there are smaller men who are prepared to pay the same price for a slice out of it because it will exactly suit their less

ample resources. So a higher consideration must be offered if both the bad and good lands are to be occupied in the manner described by Mill. His explanation, therefore, fails to rebut the conclusion that the marginal land pays no rent only where there is equally good but unoccupied land of sufficient extent in its neighbourhood.

There is, however, always an intensive no-rent margin, which affords, according to Mill, a standard for the measurement of rents. But the income from this no-rent use of land is not the same in every case, nor is it necessarily equal to what is obtained at the extensive no-rent margin. And Mill shuts his eyes to the patent actualities of modern industrial life when he assumes an equality between the return to capital employed on the poorest land in use and that obtained by the last dose of capital on superior lands.* For though competition may ensure an equality of rent where the lands are perfectly alike, it has no such levelling influence on the rate of profits even within the limits of the same industry, if those who are engaged in it differ widely from one another in skill, knowledge and command over capital. The rich capitalist farmer, for example, expects to be remunerated on a more liberal scale than his poor neighbour who lays out his slender

* Such an assumption virtually underlies his statement that "any land yields just as much more than the ordinary profits of stock, as it yields more than what is returned by the worst land in cultivation."

stock on his few acres for no more than a bare pittance. So it may very well be that while the former abstains from further investment when he finds that the additional outlay will bring him less than five per cent, the latter employs his resources up to a limit at which the increment of produce scarcely exceeds three per cent. on his expenditure. And yet both of them are able to offer the same rent for similar land as the earlier doses of capital are more productive in the one case than in the other owing to superior organization and the adoption of scientific methods.* It follows, therefore, that the yield even at the intensive margin is an element of unknown variability, being relative to the nature of the enterprise, and it varies in some cases also with the character of the soil. This fact, however, which is patent to common sense and ordinary experience, is lost sight of in the cloud-land of theory, and so Mill permits himself to be misled by the ideal simplicity of the Ricardian hypothesis when he endorses the view that rent is in every case accurately measured with reference to the yield of the least productive capital, however employed. He evidently assumes here that the income from the no-rent use of land must be the same in every instance, and for this assumption he has no better reason to offer

* Mill contends on the other hand that 'rent equalizes the profits of different farming capitals, by enabling the landlord to appropriate all extra gains occasioned by superiority of natural advantages'.

than the correct but irrelevant thesis that the least productive capital is that which just replaces itself with ordinary profits. Ordinary profits may vary, however, as we have seen, even within the limits of a single industry.

The principle, therefore, that the yield at the intensive margin affords a standard for the measurement of rents is correct only if we understand by it the return to the least productive of the units of capital that are applied to the same land or under precisely similar conditions. We are thus brought back to Adam Smith's position that rent is a surplus produce determined by deducting from the value of the total yield what is required for replacing the stock of the cultivator with ordinary profits. Where then is the gain to science in the new conception of differential return, which Ricardo did so much to familiarize? Mill says, as we have seen, that it furnishes a standard for calculating the rent which may be derived from superior lands. But the ultimate standard is on his own showing the difference between their estimated yield and the remuneration which the tenants promise to themselves by working their holdings. The real contribution, therefore, of Ricardo to science consists in the prominence which he gives by means of this new standard of measurement to the dynamic fact that an augmenting demand for food crops involves a twofold pressure on the soil in as much as it leads not merely to an extension of the margin wherever that is possible,

but also to an increased application of labour and capital to lands which are already under the plough. The landlords, as he truly observes, gain by either of these two kinds of expansion, between which there is, generally speaking, a certain parallelism, the depression of the intensive margin corresponding to an outward movement of the other.

CHAPTER III

JEVONS, SIDGWICK & MARSHALL

Jevons accepts the Ricardian theory of rent and restates it with the help of diagrams and of symbols taken from the fluxional calculus. As presented by him, it has the appearance of a mathematical theorem. But exactness and perspicuity are the only merits of his demonstration for, resting as it does on the same empirical regularities and plausible assumptions, it lacks the conclusiveness of a deduction from universal or absolute principles. So the theory receives no additional support at his hands, his contribution to the subject consisting merely in the substitution of a new set of symbols for the clumsy arithmetical quantities with which his predecessors had illustrated their views. But the directness and simplicity of this symbolic statement facilitate the discovery of all the premises on which the deductive superstructure is based.

These premises are the law of diminishing return as understood by the Ricardians, the law of indifference and the doctrine of a uniform level of profits and wages. On them are founded the four principles which he borrows from MacCulloch, because they constitute in his opinion the most scientific exposition of the theory of rent. The first of these principles is that 'if the produce of land

could always be increased in proportion to the outlay on it, there would be no such thing as rent.' It is offered as an admitted verity or rather as a commonplace of economics, which requires no elucidation or comment. But there is a tacit assumption in it that all lands respond with equal generosity to human industry. Suppose there are a few acres in a self-contained village, which produce much more than what is required for remunerating the cultivator, while the rest of the arable land barely repays the husbandmen for their labour and capital. Will no rent be offered by these for the privilege of exploiting the more fertile land, when they find that increased outlay on their own wretched holdings brings them a proportionate increase of produce? It must be patent, on the other hand, that a condition like this will give a tremendous superiority over them to the fortunate possessor of the more fertile land and so intensify the demand for it, for whatever might have been his advantage at the outset, it will multiply with every fresh application of labour and capital. If ten men secure a miserable pittance by working the inferior soil, while a similar number make from the rich land Rs. 20/- each in addition to what is necessary to keep them alive, then when there is a tenfold increase in the outlay in either case, the difference in the productive power of the two kinds of land will be represented by Rs. 2000/- while it was only a tenth of this sum before intensive culture was carried to this stage. There is a limit

to the benefit obtainable from relative superiority in this dull, matter-of-fact world of ours, for it ceases to tell after production has reached a certain stage. This limit, however, recedes indefinitely, when every fresh dose of capital and labour results in a commensurate augmentation of the produce. But it is probably implied that all that the village may require in the way of agricultural produce will be raised in the circumstances contemplated on the few acres of superior productiveness. As, however, there will in all likelihood be a gradation of excellence even in this limited area, it follows that the total demand will be met from only a small portion of it, *viz.* that which is richest however insignificant it may be in extent. Let us try to find out all that is involved in a conclusion like this. The requirements of the village must vary from time to time with every fluctuation of population and every change in the style of living, and we must suppose that the possessor of this parcel of land has no difficulty in adjusting his industry to such alterations in the demand, and that he is above the weakness which prompts ordinary mortals to make exceptional profits by creating a relative scarcity of their commodity. He must also have an indefinite command of capital and labour, and ability equal to the management of productive work of all magnitudes. Even then there may come a time in the history of the village when there will be just standing room on the farm for the labour force that will be required

for raising the necessary agricultural produce. Intensive cultivation will seldom approach this stage and can never go beyond it. But rent will appear if it is deterred by impediments moral or physical from preserving always the same just equilibrium between production and consumption. Assuming, however, that this equilibrium is maintained and that the surplus produce of the limited area feeds the entire non-agricultural population in the village, yet if any of the trades to which it is devoted proves less remunerative than the cultivation of the soil, those who are engaged in it will come in course of time to bid for the land in order to improve their earnings. Rent is thus inevitable wherever there is a class of workers who find that they can make more by exploiting the land than by any other occupation which is open to them.* And all that the principle of diminishing return may be held responsible for is that it causes an extension of the area from which rent may be demanded by setting limits to the profitable working of every part of it. But the principle operates in much the same way in the case of other instruments of production which are in constant request only because their number or magnitude

* J. S. Nicholson expresses this view tersely and clearly in the following words :—"Even if the conditions of production were such that the returns to every dose of capital applied to land were precisely equal, economic rent might arise. All that is necessary is that the land should be appropriated, and that the produce should sell so as to give more than ordinary profits."

must be increased in order to meet increasing demands for their products. So the principle of the impeccability of which Jevons makes no doubt involves certain assumptions which are nowhere realized in this world of ours. For even in the department of industry, you cannot indefinitely increase those productive forces that co-operate with machinery. If that were possible, a single weaving mill might clothe a nation, just as a small bit of land would under parallel conditions feed it, and there would be no market for new land or machinery in the circumstances. But such a consummation, though it may be devoutly prayed for, is as remote from the realities of life as are the wildest dreams of romance. And no advance is made towards an etiological explanation of rent as a typical economic phenomenon by saying that it does not appear in certain circumstances which as a matter of fact are nowhere realized in the world which the economist takes cognizance of, circumstances which seem even to be incompatible with the unalterable scheme of nature and of human capacity.

The second principle is that, 'the produce of land cannot at an average be increased in proportion to the outlay, but may be indefinitely increased in a less proportion.' It is a succinct but by no means very satisfactory, enunciation of the law of diminishing returns. The phrase 'at an average,' though quite intelligible, fails to bring into prominence the fact that there are circumstances in which the yield

does increase in proportion to the expenditure of capital and labour. This is a defect, for a critical study of their influence is required for a proper comprehension of the nature and causes of rent. The concluding words, again, give a metaphysical finish to a principle which is believed to be taken into account in the profit and loss calculations of business men. It signifies little after all whether there is or is not a limit to the possible increase of production from any particular land. What really interests the economist is the capital fact that at any particular time, the state of the agricultural art and the extent of the demand for agricultural produce prescribe a limit to the application of capital and labour to land, which cannot be transcended with impunity. Lastly there is nothing in MacCulloch's statement to indicate why the principle of diminishing returns, which is of universal application in the domain of industry, should create a special revenue in the province of agriculture. If a bit of land fails to respond with equal generosity to successive doses of capital and labour, the same is true of machinery. But machines can be multiplied at a more or less uniform cost, while the resources of man are ordinarily inadequate for the purpose of adding to the extent of valuable land. When, however, it is practically extended by foreign commerce or territorial acquisition, the effect is at once felt in a decline of the special revenue which is due in the last resort to the scarcity of land.

The third principle is that the least productive

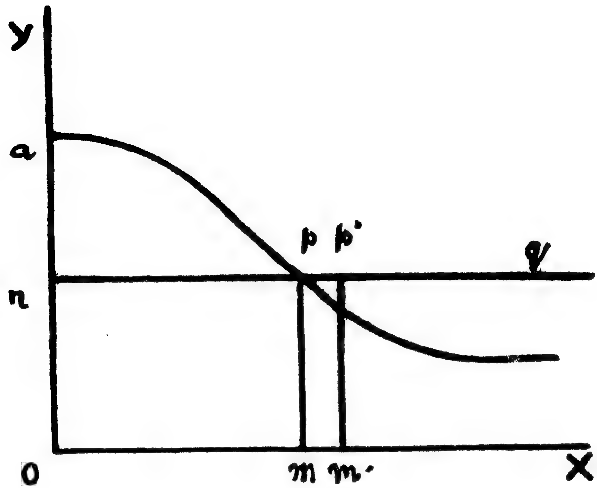
portion of the outlay, which, speaking generally, is the last, must yield the ordinary profits of stock. But it must be always difficult to determine the productivity of different portions of agricultural capital, and no such comparative estimate finds a place in the reckonings of the ordinary farmer, who incurs his total outlay because he is convinced that neither more nor less will remunerate him for his labour and skill. A rough anticipation of what will be the net product of the last dose of capital and labour may, no doubt, be made when he is nearing the limit of his resources and wants to discover whether it will be worth his while to spend a little more in this direction or in that. But this calculation cannot be taken as indicating with sufficient accuracy the rate of profit on his total expenditure that will satisfy the farmer. Besides, it is always relative to his ability, enterprise and capital and so may differ widely in different cases. If, however, this estimate on the margin of doubt about the desirability of further investment is left out of account as an unreliable index of the total income that the agriculturist expects, there is no other detailed estimate of the relative efficiency of different portions of his capital that may serve as a guide in this respect. So MacCulloch ignores agricultural practice in the interests of a convenient theory when he says that the least productive portion of the outlay which, speaking generally, is the last, must yield the ordinary profits of stock.

A similar fondness for abstractions and disregard for the realities of industrial life are betrayed by MacCulloch in his enunciation of the fourth principle, which states that all that the other portions of capital yield above ordinary profits is rent. Here too we are to understand by ordinary profits, the produce of the last increment of capital. But it varies, as has been already observed, from case to case, and being in reality an important part of the entrepreneur's special revenue, is more a measure of the ability with which he co-ordinates capital and labour and of his readiness to take pains than an index of the general rate of profit in agriculture. For competition has not succeeded in establishing a uniform rate of profit for all classes of cultivators even where it is freest. The poor peasant who just scratches his few acres for a miserable crop is content with a poorer return for his labour and capital such as they are than the enterprising capitalist farmer who has recourse to intensive cultivation and incurs a heavy outlay for the purpose. And yet both of them have to pay rent at a uniform rate for soil of the same quality. So if rent is to be regarded as a residual share, it would be much nearer the truth to define it as the difference between the gross produce and the return expected by the farmer who is prepared to pay the highest price for the land. But rent in that case determines the profit that may be legitimately expected instead of being wholly determined by it.

Rebellious facts like those mentioned above mar the fanciful simplicity and symmetry of the theory which Jevons adopts. And yet his predilection for the mathematical method blinds him to everything but its internal consistency. So he takes the four principles in which it is succinctly put forth as admitted verities requiring neither elucidation nor proof. And he proceeds to give it a new and more satisfactory expression with the help of mathematical symbols and figures. The result is a genuine improvement in the method of exposition. But that is all ; no new argument is offered in support of the theory, nor is any attempt made to modify it in the face of recalcitrant facts, if we leave out one important suggestion which is not fully developed. Jevons believed mathematics to be a valuable instrument of economic research ; but here at any rate it serves a less dignified purpose, *viz.*, that of presenting the premises and conclusions of Anderson* and MacCulloch in the form of a chain of consecutive reasoning.

* So Jevons thought, and he was, therefore, inclined to deny to Ricardo the credit of having discovered the theory of rent. But, as Hollander points out, Anderson had in view the extensive margin only when he tried to demonstrate that rent was a differential return. And intensive cultivation was in his opinion attended by increasing returns. So his position could be met by a reference to the fact that in old countries all the land under occupation paid rent. Ricardo established the theory on a different basis altogether when he observed that it was enough for his argument that labour and capital

His diagrammatic exposition is briefly as follows. "Let distances along the line OX denote quan-



tities of labour, and let the curve *apc* represent the variations of the rate of production. Let a small new increment, mm' be applied, and suppose the rate of production equal over the whole of the increment. Then the small parallelogram pm' will be the produce. . . . . . If we further suppose that the labourer considers his labour mm' repaid by the produce represented by the area pm', there is no

were applied under the influence of the economic motive up to a limit at which the return was just equal to ordinary profit. And it was this doctrine, in fact, that Jevons undertook to explain and illustrate in his own way.

reason why every other part of his labour should not be repaid at the same rate. Drawing then a horizontal line *rpq*, through the point *p*, his whole labour, *om*, will be repaid by the produce represented by the area *orpm*. Consequently the overlying area, *rap*, is the excess of produce which can be exacted from him as rent if he is not the owner of the land." But this overlying area appears only because successive increments of labour are assumed to be less and less effective. Jevons states this presupposition very clearly when he says that "the laws of rent depend on the undoubted principle, that the curves always ultimately decline towards the base line *OX*, that is, the final rate of production always ultimately sinks towards zero." But this decline in the productiveness of labour has to be reconciled with the well-known truth to which he himself draws attention, *viz.*, that the last increment of it is the most painful and so cannot be bought at a lower rate than earlier doses of it. His argument as it stands would seem to suggest that rent emerges because the cultivators are impelled by the prospect of diminishing profits to apply more and more labour and capital. There is a missing link in the chain of reasoning, which must be supplied if these apparently incompatible statements of facts are to fit together into an intelligible doctrine. The truth is that labour is increasingly applied to land even when its effectiveness declines in the manner described, because the value of its fruits rises in such a manner

as at least to make up for the shrinkage of the produce. So the motive here as elsewhere is the prospect of additional gain, but owing to the operation of the principle of diminishing returns, this additional gain in which the landlord participates is at the expense of the consumer.

It is necessary to develop this argument with a view to complete the demonstration of Jevons and to test the accuracy of his conclusion. The last increment of labour is applied because the farmer knows that he will be sufficiently recompensed for it, though there will be no surplus after he has been thus recompensed. Hence the rent which he can afford to pay is quite independent of his decision to cultivate the land a little more intensively ; and he will agree to pay it even when he has no inclination to incur the additional sacrifice. But self-interest, it may be urged, will induce him in every case to push his industry up to this point. It is, however, an assumption which has to be verified, when the question is one of adding to the amount of capital and not of labour, for the farmer may not have the necessary resources, and he is not likely to be jostled out of his holding by one who has, since the latter can expect to be only barely remunerated for the extra outlay and so will not undertake to pay a higher rent. The intensive margin, therefore, may not be always a no-rent margin, and so it is quite possible that rent will in certain cases exceed the estimate obtained by subtracting the

marginal yield from the returns to more productive units of labour.

But even if this objection is waived, are there any reasons for supposing that Jevons gives us a simple and accurate method of measuring rent? The total income that the farmer can reasonably expect from his business is, according to him, equal to the return for the last dose of labour multiplied by the number of doses that are applied to his land. But this simple arithmetic takes for granted that the marginal productivity of labour is a just measure of the compensation which may be demanded for it at every stage of its application. It is, however, a large assumption and it runs counter to much that is valuable and original in his own analysis of the motives and calculations that prompt to industrial activity. "Labour, says he, "is the painful exertion which we undergo to ward off pains of greater amount or to procure pleasures which leave a balance in our favour." It follows, therefore, that the inducement to labour must progressively decline with every additional employment of it not only because it drains off our energy, but also as its recompense leaves us with fewer unsatisfied desires or actual pains. Labour will doubtless be employed so long as its recompense makes up for the painful sensations that accompany it ; but since the irksomeness of each succeeding increment is greater than that of the increment preceding, the amount of reward for the marginal dose must be the largest in order to leave a balance of

pleasurable sensations. Such a view does not, it is true, tally always with the realities of life, for we often find business men and especially cultivators working hard for a small addition to their income which bears no proportion to their sacrifice. But they do so because even when the actual reward for the dose is relatively small, a very high value may be attached to it in consequence of the desire to excel or the irrepressible craving for some new gratification or for the complete satisfaction of a partially satisfied want. This value, however, must be too indefinite to serve as a basis of comparison, while if we confine ourselves to quantitative measurement, we do not find much reason for assuming a uniformity of reward for successive doses of labour. Jevons seems to be vaguely aware of this when he says that if the recompense were equal over the whole, the ligitimate reward of labour would be $l \frac{dx}{dl}$ supposing l to represent the total amount of labour employed in the business. There is, in fact, not the slightest reason for assuming that the recompense should be equal when the utility of additional reward and the painfulness of prolonged labour move in opposite directions with every fresh acquisition and effort. So what Jevons has really in view is not the compensation for successive investments for it must form a graduated scale, but the average rate of profits or wages, which is virtually multiplied with the number of units in his formula $l \frac{dx}{dl}$. This it is that the farmer takes into account: and if the

exploitation of land yields more, he is 'able and willing to pay the surplus, when hiring it from another.' We are thus brought back to Adam Smith's definition of rent, the precision of the mathematical demonstration only imperfectly disguising the concession which Jevons makes to the older doctrine. His method serves, no doubt, to bring out what is implied in Adam Smith's thesis, that 'the rent of a piece of land is all that the tenant can afford to pay in the actual circumstances of the land.' This tenant must generally speaking be prepared to work his land up to the point beyond which it cannot be worked with advantage in the actual circumstances of his industry, before he can offer the rent which competition will fix for it.

There is a special reason for Jevons's partiality to the Ricardian way of dealing with the problem of rent. Interest had in his day and, in fact, even before his time shifted from the more or less academic question of the nature and causes of rent to the study of the circumstances in which it increases or declines. And when Jevons speaks of the last increment of labour as if it were a definite unit yielding a distinct and measurable return, he has his eye really on a dynamic condition in which for some reason or other it becomes the interest of farmers to resort to a more intensive cultivation. This introduction of a dynamic fact to illustrate his theory is, of course, quite legitimate even if we leave out of sight its practical significance ; for the so-called static state

is after all a mere abstraction and secondly because an examination of the forces that bring about an enhancement of rent is likely to throw a flood of light on its nature and on the circumstances in which it originates. But it should be clearly stated that the farmer is induced to add to his outlay by the prospect of at least a proportionate increase in his income by a larger application of capital and labour. And this prospect appears before him because the price of his produce has soared above its old level owing to the augmentation of the demand for it. For it is primarily the want of correspondence between the improved demand and the supply that causes the disturbance in price, though the circumstance that the cost of production increases more than in proportion to the increase in the supply may prevent it from settling down to its old level. Thus the law of diminishing returns exercises its sinister influence not in giving prices an upward trend but in preventing a downward movement after there has been an increase of production; and even this influence owes its peculiar malignity in the department of agriculture to the fact that the extent of land available in any locality cannot be increased by any amount of human effort. It is operative also in determining the limit to which intensive cultivation will be carried, when a more thorough application of capital and labour has been prescribed by the enhanced price of the produce, which is the effect and index of the augmented demand. But it is no

more operative here than it is in any other department of industry, since the mill-owner does not work his machinery beyond a certain point for precisely the same reason which dissuades the farmer from indefinitely increasing the application of capital and labour to his land. That the latter pushes intensive cultivation as far as he does and that the landlord is able to exact from him the whole of the produce that is represented by *rap* in Jevons's diagram are due in the last resort to the relative scarcity of land. For the application of capital and labour is carried to the point *m* in spite of a progressive decline in the yield and even when a more generous return may be reasonably expected for the first few doses on another piece of land, only because this other piece cannot be had free of rent. So the rate of rent is already there, and it is there because the supply of land is limited and not because the efficiency of successive doses of capital decreases after a certain stage when applied to the same parcel of land.

Indeed, the law of diminishing returns is of universal application and so cannot explain why the rent of land is so widely different from the hire of other instruments of production as to form a class by itself. The peculiar drawback of agrarian industry is that land of the right kind cannot be increased with the increase in the demand for it; and to it is to be ascribed the tendency of a rise in the prices of agricultural products to become more

or less permanent unless there is a shrinkage in the demand for them. Upward movements in the prices of manufactures are sometimes quite as marked as any that has been witnessed in the course of agricultural prices, and they are accompanied by corresponding movements in the prices of the instrumental commodities. But high prices lead to their multiplication, so that sooner or later the prices sink down to the cost of production, and with this decline in their prices, those of manufactures also fall. Land, however, has no supply price, and hence the intensified demand for it which follows an intensified demand for agricultural produce leaves a durable impress on its value as well as on the value of the things which are obtained from it. Hence when the dynamic condition with which we started leads to a more or less stable adjustment, the rent of land usually maintains the level which it has attained. Here then do we get an important distinction between the rent of land and the hire of other instruments of production and an insight as well into the conditions of its emergence. So it must be said that Jevons does not fully explain the nature of rent as a distinct type of income when he lays exclusive stress on the decrease in the net product of successive doses of labour and its complete disappearance in the case of the last dose. The basis of the distinction is that while an increase in the demand for other instruments usually sets in motion forces that enable the supply to overtake it without difficulty, such a

thing is not possible in the case of land, not only because the total extent of land is limited but also because space and location are quite as important in agrarian industries as the fertility of the soil and an aggregation of the land to meet an intensified demand anywhere is out of the question even if there is a superabundance of it in other places.

There is, however, a remark of Jevons which indicates an advance on the position of his predecessors. Rent, he says, is the equivalent of the advantage which "the cultivator derives from the possession of land in affording him more profit than other methods of employing his labour." It is, therefore, still a differential return, but not of the kind contemplated by MacCulloch, for the comparison is no longer between the unequal returns obtained from different lands or from successive outlays on the same land, but between the income from agriculture and the earnings in other lines of business. This new standpoint indicates a new line of enquiry. But Jevons does not take it up definitely, though his definition of rent is significant as involving a surrender of the narrow conception of it to which currency was given by Anderson and Ricardo. In other methods of employing labour, he might have observed, the place of land is usually taken by other forms of capital, and these have to be paid for. Their value, however, is governed in the long run by the cost of their production, while that of land is determined solely by the intensity of the

demand for it. Agriculture does not employ more capital than other industries ; but the capital which it uses falls under two distinct heads, the returns to which are regulated by different principles. One of these is denominated profit*, and when this is allowed for, there remains a surplus which is attributable to the other form of capital. This surplus it is that is symbolically expressed, but not accounted for, by Jevons's formula $Pl—l. \frac{dl}{dx}$, in which, for the sake of simplicity, the income from capital is represented as the earnings of labour. It fixes the price of land, a price determined by its scarcity and utility as an instrument of production. The values of other instruments are similarly determined ; but they correspond also to the cost of production. Hence however lucrative other industries may be, the revenue from them may always be denoted by the formula $l. \frac{dx}{dl}$, if exception is not taken on the grounds already given to Jevons's mode of defining it. A surplus, however, appears in the primary industries or Pl proves greater than $l. \frac{dx}{dl}$ because since land cannot be multiplied by human effort, its value cannot be treated like that of other instrumental commodities as a multiple of $\frac{dx}{dl}$.

*The use of the term 'profit' in this comprehensive sense is, no doubt, misleading, and 'interest' or 'revenue from capital goods' would be more definite. But, as observed below, Jevons chooses for the sake of brevity to class together interest and remeneration for all kinds of labour.

A decidedly independent attitude with regard to this subject is taken up by Sidgwick, who adopts the wise method of testing the conclusions of *a priori* reasoning by frequent reference to the well-known facts of industrial life. The champions of the deductive method failed to see that their conclusions might be incorrect even when there were no weak links in the iron chain of their reasoning and no slips in their reflective analysis of economic forces and conditions. Sidgwick, however, is always alive to the necessity of making an allowance, sometimes very considerable, when the logical method is applied, as it must be in Economics, to simplified premises or when economic phenomena are isolated for purposes of study from their concomitant conditions. He is thus able to avoid in many instances the danger of confounding hypothetical validity with material accuracy ; though owing to the limited nature of his observations, he does not always succeed in following a typical phenomenon under widely divergent conditions.

The superiority of the new method or rather of the new critical spirit with which the old method is applied appears at once in Sidwick's treatment of our subject. He rejects the distinction drawn by Ricardo between rent proper and profit on the ground that there are almost insuperable difficulties in the way of such an analysis of the undivided income of the landlord. We cannot directly determine the value of the original properties of the soil, because

we cannot restore a modern farm to its original condition. And it is by no means easier to find it by eliminating from the landlord's revenue the portion which is assignable to the ameliorating influence of capital and labour. For even if it were possible to make a just allowance on account of the landlord's outlay and of those from whom he claims, there would still remain a portion much more difficult to estimate, which must be set down to improvement in transport facilities and development of the market for agricultural produce.

Sidgwick seems to have thought that social and economic progress under which must be included perfection of communications and improvement of the effective demand for agricultural produce gives a value to land which is detachable in thought at least from the value of the original properties of the soil and from the landlord's profit. The truth, however, is that there is hardly any reason for such an analysis of rent into three constituent elements, for general advancement affects it only by enhancing the value of the other two factors. The 'original properties of the soil' may remain the same from generation to generation and yet their value may vary as the value of an instrument of production is dependent on the arrangements that exist for its use and on the demand that there is for its product. Much the same may be said of the landlord's profit, since the productivity of his capital will be relative to the excellence of the

complementary commodities, among which are to be reckoned the roads, canals and railways which offer facilities for the purchase of the requirements of production and the disposal of the produce. There is, therefore, probably some confusion of thought in Sidgwick's criticism between the value of the original properties of the soil which must change from time to time and the original value of those properties. Still the difficulty to which he refers is not altogether imaginary, for the effect of social improvement on this value cannot be directly measured. And it is likely to be magnified if in any concrete case we try to determine this value by subtracting from the total income of the landlord interest at the current rate on his outlay for improvements. For the same social progress, which enhances the value of the inherent properties of the soil, must augment also the landlord's profit on his investment. Its real nature is obscured when it is spoken of as interest, which it would be only if a certain percentage on his outlay were assured to the landlord as an annual income. But liable as it is to be cut down or even wiped out by adverse conditions and improved by favourable circumstances, it partakes of the character of the entrepreneur's special gain, even where as in England, it is seldom much more than ordinary interest. Besides, as unlike the entrepreneur's profit, it is not a separate income, but is always combined with the other element in the landlord's revenue, the difficulty must be manifest of definitely ascertain-

ing either of them when both are similarly affected by changes in the general economic condition.

There is, therefore, much to be said in favour of Sidgwick's decision to take rent in its ordinary sense of the price paid for the use of land, whatever be the source of its utility. Thus understood, it is only an instance among many of payment for the loan of wealth when the same thing that was lent has to be returned. He holds, however, at the same time that it is only a scarcity value, while the hire of boats, carriages and pianos corresponds also to the cost of their production. The reason for this fundamental difference is, of course, to be sought in the circumstance that the supply of land is unlike the supply of the latter incapable of extension by human effort. Sidgwick thus arrives at Ricardo's conclusion with regard to the course of rent in a densely peopled and progressive country ; but he bases it on considerations which are more obvious to common sense. The unearned element in rent increases, as he observes, with the increasing scarcity of land in relation to the demand for it, and this demand expands *pari passu* with the demand for foodstuffs, which, again, must increase with the growth of population. Important and easily applicable improvements, reduction in the cost of transport and 'the opening up of new channels of supply through trade from abroad' may, no doubt, adversely affect the demand for land even when population continues to grow. But transport facilities or improvements or foreign trade

cannot check the rise of rent where location is of importance as it is in urban areas and centres of manufacturing industry as well as in places where land is a direct commodity. Hence when the various utilities of land are taken into account, the total rental in civilized and advancing countries will show, according to Sidgwick, a considerable unearned increment in any period which is sufficiently long to eliminate the influence of temporary oscillations.

Where rent is competitively determined, it is. says Sidgwick, no more than 'the surplus which the price of the produce of the land would be expected to afford to a farmer of good ability and industry, after subtracting whatever competition allows him to claim as remuneration for his own labour and the sum required for replacement with interest at the ordinary rate of the capital employed by him upon the land ; assuming for simplicity that the processes by which such produce is obtained do not affect the utility of the land as an instrument of future production.' Rent thus is not merely a differential return but a residual share of the total income from land determined by the current rate of agricultural profit. And it includes in a manner not separable by abstract thought and never found separate in the world of concrete facts, the value of the original properties of the soil and the profit on the landlord's investment, both of which are affected by the general economic condition of the society. This is substantially Adam Smith's position. But Sidgwick pro-

vides a transition from it to the later theory of Anderson and Ricardo by observing that even when the demand for agricultural produce is increasing, there will be on the margin of cultivation land of which the rent just repays the landlord for his outlay if any and gives him in addition what he might expect from the land by letting it for sport. As the cultivator of such land must be earning profit at the usual rate, it follows that the rent per acre of any other land must be a measure of the difference between its productivity and that of the land on the margin.* But Ricardo and his followers are wrong, according to Sidgwick, when they speak of this margin as paying no rent, for in an old country like

* Even this guarded statement requires further modification and explanation, as is pointed out by Taylor in a very interesting article in the *Quarterly Journal of Economics*. "While the farmers", says he, "who possess a relatively high degree of efficiency can win a larger return from land of any grade than can their less efficient competitors, this extra produce due to superior ability is greater on the more productive than on the less productive land; and for this reason the more efficient farmers compete only for the more productive land, and pay more for it than the less efficient farmers can afford to pay. If, therefore, we measure differences in productivity in terms of the differences in the value of the products which the least efficient or marginal farmers could produce on the various grades of land, differential rents will be much greater than differences in productivity." It appears thus that the vague, though convenient, phrase, 'of good ability' disguises from Sidgwick the nature of the competition by which rent is settled.

England, even land unfit for cultivation brings something to the landlord. So there is, in his opinion, a general as well as a differential element in rent in those countries in which it is an important share of the national income.

If Sidgwick had pursued farther this train of reasoning, he would have seen that even land which is used for productive purposes must be classed under different heads according to the nature and value of the service which it is fitted to render. Land, which is not good enough to respond satisfactorily to the husbandman's labour, may be taken up by the shepherd for grazing his flocks, or if it is close to towns, the land-grabber may pounce on it as furnishing likely sites of commercial establishments or manufacturing concerns. And if the land which is adapted to a particular use is often *ipso facto* unfitted for any other, the same may be said of the human factor in production, for the business ability which is quite suited to a particular industry may be quite out of place in another. The enterprise, for instance, which is displayed by the speculator is neither required, nor is it much in evidence among agriculturists, and these in their turn possess a degree of intelligence and foresight which is, generally speaking, more than sufficient for pastoral industry. If under the circumstances a cultivator is content with a return of ten per cent. on his outlay, the speculator will reasonably expect twenty per cent. on his investment, and for similar reasons five per cent. will

probably satisfy the man who uses the land for pasture. The rates of remuneration are, indeed, not quite independent of one another ; but they cannot for obvious reasons be uniform. It follows, therefore, that in calculating even the differential element in rent, we cannot always take as the base line the land whose productiveness is lowest, and that there must be a separate margin for every industry that exploits the land, if the land which it uses has well-marked peculiarities that unfit it for any other use. The differential element in the rent of any particular piece of land is thus determined by the inequality between its yield and the yield of the least productive land which is used for the same purpose and for the supply of the same market or of any other land, which though differently employed requires for its utilization a similar grade of intelligence and a similar amount of capital. Ricardo simplifies his problem by supposing that the entire area is available for a particular employment and that all who work it must be content with a similar remuneration. He thus virtually examines the phenomenon of rent with regard to a specific industry, and he errs also by assuming that the marginal land for it will be a no-rent land.* But there are non-competing groups of

* It is further taken for granted in all his illustrations relating to the extensive margin that all grades of land are similarly treated. But the more fertile lands are as a matter of fact cultivated more intensively, and the additional capital and labour employed on them yield a surplus till we come

workers even within the comparatively narrow field of agriculture, and the uniformity of remuneration and the fitness of every bit of land for a particular industry appear myths if we take into consideration the variety of occupations that use the land as raw material in a civilized community. His formula has, therefore, to be re-stated if it is to accord with facts.

The foregoing analysis reveals the weakness as well as the strength of Sidgwick's method. He has a horror of the loose employment of terms and takes care to supplement or correct the results of *a priori* reasoning by 'our common empirical knowledge of the facts of industry.' Hence there is a refreshing sense of being in contact with the realities of life, when we are following him in his interpretation of economic phenomena. Above all, the obsession of a favourite theory does not lead him to base his conclusions on so-called solid facts which turn out on examination to be anything but solid. But his analysis does not go far enough as it stops with an enumeration of the circumstances which determine the volume of rent under the regime of unrestricted competition. We are not told why the surplus which becomes rent does appear in the course of economic evolution. The profit of the agriculturist is spoken

to the marginal dose. Hence, as Taylor points out, 'the amount of rent paid for the different grades of land would not vary in the same ratio as differences in the value of the produce which a given amount of labour and capital would produce on equal areas of these different grades 'of land'.

of as determined by competition ; but no attempt is made to examine in detail the nature of this competition or the influence on it and on the ordinary rate of interest of the outside market for capital and labour. Nor does he tackle the difficult question, how far rent itself, where it is a distinct share of the national revenue, may affect the rates of profit and wages. He seems also to assume that a certain standard rate of profit is taken into account by all who bid for land in determining what they can afford to offer to the landlord. But in almost every country, there are several orders so to say of cultivators, who are able to compete with one another for land in spite of their unequal productive powers because they start with different expectations of profit, which correspond more or less closely to their social status and to the standard of comfort which obtains in their respective classes. The competition, again, of different agricultural uses makes the volume of rent depend not merely on the price of the crop that is being raised on the land but also indirectly on the prices of other crops which may be raised on it. These are some of the points and problems that merit careful consideration in a philosophical enquiry into the nature and history of rent. But they receive inadequate treatment at the hands of Sidgwick. His analysis of the causes that determine the rent of a deer forest is eminently suggestive. 'It depends, says he, 'partly on the amount of actual and possible deer forests, partly on the possibility of making a

profit out of such land in other ways, partly on the number and wealth of the rich persons who wish to shoot deer, and on the comparative utility of deer stalking and other forms of amusement, as estimated by these persons.' Some of the most important lines of enquiry are clearly indicated here, but they are not systematically followed in his study of agricultural rent.

It must be said, indeed, that Sidgwick tries to indicate the distinctive character of land as property and therefore of rent as the revenue accuring from it when he groups commodities under two heads on the principle that while the cost of production has a determining influence on the value of most of them, there is an important class which can have no cost of production because it is not produced by human effort.* To this class belong, of course, "Such parts of the earth's surface as, together with the

* Fetter holds, on the other hand, that there is a 'troublesome fallacy' in the definition of land as the free gift of nature. "Everything", says he, "to which man has given the slightest effort becomes capital. If land be tken in the usual practical sense as the earth and the materials it affords, whether difficult to get at or not, land has a supply price just as any other good has. The supply is increased when the price is sufficient to meet the money costs in the same practical sense in which this is said of other things." Sidgwick recognizes, however, the element of truth that there is in this view and he points to a real difference when he says that an increase in the supply of other commodities is not always attended by a permanent enhancement of their price.

minerals below the surface, have a market value as the indispensable primary material or instrument of all kinds of labour." Their quantity. Sidgwick observes, is given independently of the price, or if it increases at all, it does so only as the price rises with the demand. Of other commodities, on the contrary not even excepting the rawest materials, the supply is contingent on the application of a certain amount of labour which is sometimes very considerable, and so their value can never be altogether independent of the cost of obtaining and adapting them to human wants. This distinction, it should, however, be noted, is not quite as rigid as it appears at first sight, for the value of the most finished product of human labour must tend to increase with the demand in as much as the materials which are worked up in it are obtained from land and thus are not susceptible of indefinite increase. This upward trend may, no doubt, be counteracted by improvements and the economies of large scale production. But similar causes may, though in a smaller degree, retard the rise in the value of land. Besides, land which has a market value, owes it generally in some measure to labour which is not unlike the labour spent in protecting natural growth or in appropriating the good things that are freely supplied by nature. And though there are circumstances in which its value must be set down solely to its scarcity, still the fixedness of its stock cannot be regarded as completely marking

it off from other economic goods, first because this fixedness is reflected in the absence of perfect elasticity in the supply of the latter to the extent that it is operative at all, and secondly, as the stock of land is still so far from being exhausted that the ultimate limit set by nature cannot be regarded as determining the range of agricultural prices and of rent throughout the civilized world. This is a point on which Sigwick himself lays stress when he observes that the so-called consequences of the niggardliness of nature fall outside the limits of practical forecast. Here, indeed, we have an appeal to experience to which he turns so often to establish a correspondence between reality and abstract thought. But the same experience should have led him to emphasize the circumstance that in the case of land this fixedness of supply does tell in every country and in every district because owing to fixedness of a different kind insufficiency in any particular case cannot be corrected by an excess of supply in others.

There is an appeal once more to experience to supply an adequate corrective to the results of reflective analysis when Sidgwick takes exception to the Ricardian doctrine that rent is the difference between the return on the last dose of capital and the returns on previous doses. His criticism which is given below *in extenso* is especially interesting as illustrative of the manner in which he approaches economic problems. "Ricardian economists," says

he, "have sometimes spoken of the 'last dose of capital which pays no rent' as if this 'dose' were an element definitely ascertainable in the business reckonings of an ordinary farmer, and could be used for calculating normal rent in any particular case. Experience certainly shows us in a broad and general way that as the demand for the produce of land rises, there is a tendency to increase the amount of capital applicable to good land as well as to extend the cultivated area ; but the art of agriculture has not yet reached the degree of exactness that would be required to ascertain even approximately in any particular case the portion that is to be regarded as paying no rent. Thus while the recent fall in the value of English wheat, in consequence of the development of foreign production and trade, has led to a marked diminution in the area of wheat growing land in England, I cannot find that it has led to anything like an equally discernible change in the amount of capital economically applicable to the land that still grows wheat."

Sidgwick holds at the same time that where custom or ignorance or lack of resources does not stand in the way, the farmer applies capital to land up to the point at which another increment would not yield ordinary interest and wages of management, so that the limit of profitable cultivation is lower than that at which the net produce per cent. of capital is a maximum. It is not clear, however, from his statement why intensive culture is generally

carried to this low limit in spite of a declining rate of profits. The truth is that the maximum return of which he speaks is determined without reference to certain facts which are duly taken into consideration in the profit and loss calculations of business men. If a farmer has Rs. 1,000 to work his farm, and if after he has employed Rs. 500 on it, every additional Rs. 100 brings him less than previous doses, then according to the economist the return on his capital is highest when he has just spent a moiety of it. But he will, though seeking like other men the fullest possible satisfaction with the least possible sacrifice, apply the whole of his capital to his farm if he finds that he is likely to gain more by employing it in this way than by employing half of it on the land and locking the other half in his chest or investing it in any other undertaking. So in determining the difference in the return in the two cases, we should take the net produce of his entire capital in one of them and the net produce of half of his capital plus ordinary interest on the rest in the other. And if we do so, we shall see that the return is higher per cent. when he invests the whole of his capital in his industry, and this is why he does not think of applying it in any other manner. The same may be said when an enterprising and intelligent farmer works his land with borrowed capital. Here too the return on the whole of his stock must be regarded as giving him the highest rate of profit, for any smaller sum will not provide full employment for his ability or

assure to him a sufficient remuneration for it. The farmer expects to be remunerated for his labour of organization and superintendence as well as for the investment of his capital, and the highest return per cent. on his capital does not indicate all the motives to industry, as it fails to take into account the energy and skill that run to waste if they are brought to bear on an amount of capital that is too small to give full scope to them. These are no doubt commonplaces of economics, and as such are not explicitly stated in theories of rent. But their suppression and the undue prominence that is given to the law of diminishing returns seem to countenance the view that the farmer works on beyond a certain point with a full knowledge of the inevitable tendency of such intensive culture to cut down the rate of profit. Such an assumption does not accord generally speaking with the facts of industrial life, even though an intelligent farmer may decide to invest the last portion of his capital after some calculation and even hesitation, for when he decides at last so to invest it, his decision is based on the conviction that he would be better repaid for all his sacrifice and labour by putting it into his business than by withholding it or applying it elsewhere. The truth is that the law of diminishing returns and the range of prices of agricultural produce determine the amount of capital that a good farmer can employ on a piece of land with the best possible results. But competition prevents him from retaining the

whole of what he thus produces, his share being determined by the current rate of interest and by the price in the general market of such skill and ability as he possesses.

Sidwick takes exception to Ricardo's conjectural history of rent on the ground that it assumes in defiance of experience that the comparative suitability for agriculture of different pieces of land has remained unaltered in old countries. Such an assumption ignores, as he says, "(1) the extent to which the labour of man has altered the original differences and (2) the extent to which the economic value of land varies apart from any variation in its physical conditions, in consequence of (*a*) changes in the art of production and (*b*) in the social demand for agricultural produce." And he quotes with approval the observation of Patten that "the progress of civilization causes much of the poor land to become good, not only through the increased use of capital and skill, but also through the gradual change in the demand for food, allowing those crops to be raised for which the land is best fitted." There are thus according to him two antagonistic tendencies in progress, one of which causes inferior land to be taken up for cultivation, while the other converts it into good land even when capital is not directly employed on it to improve its character. His criticism is perfectly just, but it does not amount to a refutation of the Ricardian theory of rent. For this theory or rather what is really

valuable in it does not lose its significance if we abandon the untenable position that the original properties of the soil are incapable of modification and admit that the fertily of land is conditioned by the means available for exploiting it.

Much of the criticism of the Ricardian theory derives its pertinency and force from the faulty expression of some of the principles involved and from the introduction of certain more or less imaginary details, which obscure its real significance without lending it any real support. But remarks directed against these appendages do not affect the validity of the central idea, that an increase of population, supposing such increase to be possible when other things remain unaltered, improves the condition of the rent-receivers at the expense of the community. They have demonstrated, however, the need of a more careful statement of it and especially of the elimination of those features which give it the character of a history of the course of rural industries. All this is attempted by Marshall, who undertakes, in fact, to free the theory from vagueness and inconsistency with facts and to supply the necessary provisos and limitations. The first point that he deals with is the distinction which appeared to many unwarrantable and even arbitrary between the original and indestructible properties of the soil and those which are due to the ameliorating influence of human labour. He admits that man has turned unpromising soil into land of

considerable productive power by draining it or mixing it with other soil which possessed just those qualities in which it was deficient. And he is inclined to think that improvements of this kind will be carried out more thoroughly and on a wider scale in the future than in the past. So it must be said that what we understand by the fertility of the soil is in old countries at least and will be in new countries at a later date more the result of human labour than of the inherent properties of the land. Still the distinction to which Ricardian economists attach importance may, according to Marshall, be maintained if we mean by the original qualities of the land, its space-relations and the amount of heat and light, of air and moisture which it receives from nature. But these properties or any difference in them do not explain the inequality in rent of adjoining lands or the fact that one of them may be paying a high rent while the other pays no rent at all.

Marshall tries to get over this difficulty by observing that pure rent in the sense of consideration for those utilities which are independent of human effort is scarcely ever met with. He is, however, in favour of separate enquiries for ascertaining with scientific precision the character and causes of the diverse elements that make up the composite payment to the landlord, especially as they seem to him to be governed by different laws. But what exactly are the utilities of which the land and the land

alone is the source? They cannot include the productive power which Ricardo had in view when he spoke of the inherent properties of the soil. For the soil loses it in bearing crops, and it is only because the cultivator returns to the land what it has lost that it remains fit for cultivation from year to year. Its annuity, again, of light and heat varies according as it is covered with jungle or is free from rank vegetation and well ploughed-up. So the utilities in question must be found in extension and location. But as in the richest and best cultivated districts, there are found plots of land which can yield no rent. mere extension and location cannot be said to have any value for the farmer. It is only where they co-exist with a certain degree of fertility that a price is offered for occupation. There is, indeed, much to be said in favour of the distinction between them and the reproducible properties of the soil, for while the latter may be multiplied, human effort cannot in the same way modify geographical relations or add to the stock of extended surface, so that the fixedness of these is always a barrier in the way of progress.* The difference, however, in their origin and character

---

* Even this is not admitted by Fetter, who points out how science and enterprise have enabled man to remove the obstacles originally presented by them. He concludes, therefore, that 'the geometric relations, physically considered, are as nothing in economic discussion compared with the time and toil relations of different areas'.

does not justify their treatment as distinct commodities. And so the two elements of which the landlord's revenue is said to be composed, *viz.*, pure rent and profit are strictly speaking abstractions based on the ascription of an independent value to utilities which are effective only when they are in combination.†

But even if it is conceded that extension and location have a real though not easily distinguishable value wherever land is paid for, it has to be shown that this value is dependent on causes that act differently on the rest of the total payment to the landlord. By an allowable ellipsis we speak, it is true, of space as rising in value with the growth of population and prosperity, while it is an admitted verity that these circumstances lead sometimes to a decline in the rate of profit. This rate of profit cannot, however, be taken as a just measure of the earnings of the capital that has been sunk in land. For the same improvement in de-

† Marshall introduces a third element in a passage which betrays some confusion of thought. "The full rent," says he, "of a farm in our old country is made up of three elements: the first being due to the value of the soil as it was made by nature; the second to improvements made in it by man; and the third which is often the most important of all to the growth of a dense and rich population and to facilities of communication." But the last can hardly be called an element in full rent, as it influences the latter only by determining the value of the other two.

mand which enhances the value of space increases also the value of the properties which, though attributable to capital, are bound up with it. Marshall, however, refuses to regard the revenue yielded by them as rent proper because it is not permanently available for appropriation by the landlord. It disappears, indeed, when the improvements are exhausted, while extension and location do not disappear in the same way. But they cease to yield an income when the land is rendered completely sterile by a predatory mode of cultivation or deprived of those advantages that may be traced to capital. So the perishableness of the utilities that are due to it is not a sufficient reason for placing its earnings under a different category. Nor is such a classification justified by the circumstance that the supply of those utilities can be increased. They decline, no doubt, in value if they are multiplied while other things remain unaltered. But their multiplication adversely affects also the demand for extended surface in so far as it augments the productivity of land or its fitness for any other purpose. And the importance of natural advantages of situation is to a great extent lost when similar advantages are secured by the employment of capital.* Thus one set of utilities may do duty for

* "When districts", says Fetter, "which are a month's journey apart are brought within a day's journey of each other, when continents are brought into economic relations with markets and wants, does not the statement that

the other within certain limits in spite of the diversity of their origin. At the same time, the instances are very rare in which land is an economic good only by virtue of its 'original and indestructible properties.' But wherever the landlord's income is the price of a complex of utilities, natural and artificial, permanent and perishable, it follows from what has been said that an attempt to appraise them separately must be quite as unwarrantable as the ascription of a definite portion of the indivisible effect of a number of conditions to each of them.

Marshall, however, very justly insists on the difference between land and other instrumental commodities, a difference which is reflected in the principles that govern their values. If the factors of production of a consumption good are susceptible of multiplication by human effort, then, when there is a change in the volume of the demand for it, economic forces dictate a readjustment of resources so as to secure the appropriate complement of the different factors. Such a redistribution cannot, indeed, be effected immediately in the majority of cases, nor is it likely to last for any length of time in a progressive society. But it is always possible, and what is more, there is a constant movement towards

'geometric relations remain unaltered' become a play on words? In cutting tunnels, levelling hills, building railroads, bridging rivers, connecting oceans by new waterways, man exercises as great a control over spatial relations as he does over any other material conditions."

it. Where, however, land is the most considerable of these factors, augmented demand for the consumption good cannot beyond a certain stage lead to an arrangement which will secure the maximum of efficiency for all of them, for the simple reason that the supply of land cannot be increased.* So when this limit is reached, every increase in the demand necessitates a departure from the most economical combination of the different agents. The extent of land that is required for any kind of productive work is conditioned, it is true, by the degree of perfection which has been attained in it, and even where all the available land has been occupied, inventions may set a new and narrower limit to the demand for it and thus render possible once more a combination of the different agents in the right proportions. But generally speaking, increased produce has to be obtained in a densely peopled country by a more intensive use of the available area. It is this inelasticity of the supply

* Hence land and capital are, according to Marshall, properly distinguished from the social point of view. Fetter, however, criticizes this position on the ground that land only is thus viewed. "The total supply", says he, "is clearly borne in mind and the use of land in one industry is seen to take it away from another. But in the case of capital there appears to be a shift to the individual view and to the services rendered by one undertaker and, because he can increase or decrease the capital employed in his industry 'according to the effective demand', it is concluded that the total supply of capital is thereby altered."

of extended surface that seems to mark off land from other instrumental commodities and, according to Marshall, from the capital also which is expended on it. But in drawing the last distinction, he assumes without sufficient grounds that outlay of this kind may be increased or diminished whenever the income expected from it exceeds or falls short of normal profits. He observes rightly enough that "if one person has possession of a farm, there is less land for others to have, that his use of it is not in addition to, but in lieu of the use of a farm by other people." But he omits to point out that owing to the fixedness of the stock of land, the farmer or the landowner does curtail the opportunities of others of earning a similar income by a similar investment when he applies capital to his own land for its amelioration. The necessary capital may, indeed, be forthcoming; but the necessary land cannot be had. So where there is a dearth of land that may be profitably employed, the capital invested on it earns an income which is determined even in the long run by external conditions and not by the general rate of profit. It is not of the nature of quasi-rent because the capital to which it is due can not be multiplied in the same way as other appliances of production in which capital embodies itself.

It should be observed, however, that Marshall does not accept in all its rigidity the Ricardian distinction between the revenue from the inherent qualities of land and that which must be set down

to its acquired properties. There is a continuous gradation, as he says, from rent proper or the price of the free gift of nature "through the income derived from permanent improvements of the soil to those yielded by farm and factory buildings," so that he is not prepared to admit that it is a revenue of an absolutely unique type. And he lays stress on the fact that the income of the landlord, to whatever source it may be imputed, is a residual share, being governed for all periods of moderate length mainly by the price of the produce, while that of the tenant is even for short periods strictly profits in as much as it determines that price instead of being determined by it. The line of division between the income of the two classes which is thus indicated is, in fact, according to him, "the deepest and most important line of cleavage in economic theory," and so he may be taken as holding that the so-called element of profit in the landlord's revenue has more in common with rent proper than with the entrepreneur's income. Yet he contends that there are sufficient grounds from the social point of view for drawing a distinction between them, for while progress enhances the value of the fixed supply of the utilities that are traceable to nature, it renders possible at the same time the multiplication of the other set of utilities at a uniform if not at a diminishing cost.* But progress does not

* He holds at the same time that we should class with pure rent the 'public value' of land or that which is ascribable

augment the demand for the enduring and unalterable utilities where improvements in technique or in organization are elements of it. And as has been already remarked, there is a limit to the multiplication of improvements when these improvements can be made only on a limited supply of land.

So whatever may be gained in clearness by attributing the value of land to two different causes, its analysis into two component parts is misleading, as it conveys the impression that the contribution of nature and of man may be separately estimated and should be regarded in a scientific enquiry as distinct elements governed by different principles. A similar confusion of thought is also encouraged by the view that land as a gift of nature is altogether unlike other commodities in respect of the conditions which regulate its value. Marshall, however, is of opinion that the distinction between them is based on a scientific principle in as much as man has no control over the supply of those utilities of which land as land is the source, while the stock of other

---

to social and economic advance and not to any sacrifice on the part of its owners. And he points out that situation value is public value except where it is due to their enterprise, when the benefit that they derive from it, however large, must be put down as profit. His reason for this distinction is that 'where great risks have to be run, there must also be hopes of great gains'. But it is certainly not the magnitude of this income, but the question whether in earning it they are exposed to competition that must determine its character on Marshall's own principle.

utilities can be increased if only there is an increased demand for them. But the ultimate source even of these utilities is land ; and if it is given as a fixed quantity, then unless it is assumed in contravention of experience that there is no limit to man's power of creating utilities out of it, the only check to its exercise being the limitation of demand, these man-created utilities also must be regarded as given at any particular time as a more or less fixed quantity. Take cotton or jute, for instance, which are obtainable only from soil of a certain quality situated in or near the tropics. It is obviously not in the power of man to effect an enormous increase in the output even if there is a demand for such an augmented supply and the demand is intense enough to bear any enhancement in the price. When, again, we say that land is given as a fixed quantity, we do not certainly mean that there is no room for an increase of supply in response to increasing demand. For we are far still from a complete appropriation of the available stock, and all that can be said is that the land which may be profitably worked to meet the present demand is limited. But the same is the case with other utilities, as you cannot employ more labour and capital in manufacturing them so long as the demand remains unchanged. Improvements in methods of production or of transport may, it is true, stimulate the demand for them by lowering the price and enable the supply at the same time to keep pace with the growing demand. But similar conditions in agrarian industry

do sometimes lead to an expansion of the field of exploitation ; and since there are extensive stretches of unoccupied but fertile land in various parts of the world, it is quite conceivable that an augmented supply may be obtained without a descent of the margin or the utilization of inferior soils. Besides, where a scientific treatment of the soil enhances the efficiency of those utilities which are attributable to nature, their increased efficiency amounts practically to an increase in their supply as it effectually meets an augmented demand for their services in production.

Where then is the justification for regarding land as a commodity of a unique character? The outstanding fact which is believed to mark it off from capital goods is the difficulty which is experienced in obtaining increasing supplies of raw materials—a difficulty which is reflected in a more than proportionate increase in their cost. Those things, on the contrary, which are the products of manufacturing activity can be multiplied, it is said, without a perceptible increase in their cost or even at diminishing expense owing to the ease with which the producer's capital can be added to.* There is much, no doubt, in the

* Gide presents this view with remarkable clearness and force in the following sentences :—"It has been said that the phenomenon of rent is not peculiar to land......that profit itself is only a kind of rent. Still it is almost exclusively in landed property that the law of rent is in conflict with the general interest. Elsewhere, in industry, for example, it manifests

history of modern industry that countenances such a belief. Still it cannot be taken as accurately representing the invariable influence of enhanced demand or the process by which the supply is adjusted to it. For even where they seem to be equated by an easy and automatic expansion of the supply, it is often the possibility of such an increase at a uniform or a lower cost that encourages the opening of new markets. So the fact that the level of prices remains undisturbed or exhibits a downward movement even when the consumption increases can not be taken as conclusive evidence of the capacity of human labour to gratify increasing wants without increasing difficulty. A different estimate of its productive efficiency is, on the other hand, suggested by the spectacle of arrested development in certain lines

---

itself only temporarily, since the better situated producers are as a rule able of themselves to supply the market by increasing the production *ad libitum*. Rather than profit by their privileged situation to continue to sell at the old prices, it is their interest as a rule to lower prices, so as to undersell their competitors and drive them gradually from the market, they thereby gain less on each article, but they make up for this in quantity. This explains why in industry, although at a given moment the price is always determined by the maximum cost of production, in the long run it is determined by the minimum cost of production—a fact which is of great advantage to society......Quite otherwise is it in agricultural production, where, it is to be feared, prices are determined by an ever-increasing cost of production, which will be translated into a progressive rise in land rent."

of business, where progress is checked not by the absolute inelasticity of the demand, but by the circumstance that their outturn cannot be increased except at a cost which is prohibitive. In a few other instances, again, where the demand has been intense enough to stand a considerable rise in prices, prices have steadily risen owing to the progressively increasing difficulty which has been experienced in multiplying the requisites of production. There is thus no reason for assuming the absence of a limiting principle in the case of those utilities which are created by man. And those who lose sight of it in drawing a distinction between them and land fail to lay due stress on the obvious consideration that the limitation in the supply of the latter, if it is operative at all, must set bounds to man's power of producing utilities of any kind, since land is "the primary condition of anything that he can do." How real, indeed, this limit is sometimes may be seen from the difficulty that is being experienced in increasing the output of high speed steel or of rubber tyres or in meeting the demand for incandescent gas mantles. And that it is less palpable in other cases is due to one or other of a number of circumstances which by their presence prevent a crucial test of the capacity of human labour to multiply the utilities that it creates. The inventive genius of man, for instance, often provides fitting substitutes for the instrumental commodities or the consumption goods which they produce, when their stock cannot be increased except at an increasing

cost. The improvement, again, in the demand is sometimes the result of a change in economic and industrial conditions which facilitate the production of those very commodities which are required to meet it, as, for example, when the discovery of rich iron mines gives an impetus to manufacturing industry of various kinds, the appropriate machinery for which is supplied with comparative ease owing to the proximity of abundant deposits of the necessary raw material. But in a case like this, it is the supply that creates in a sense the demand, and so there is a manifest inaccuracy in overlooking their interdependence and ascribing their equation to the capacity of human labour to indefinitely increase the supply. An increase, however, in the demand for land does not, generally speaking, wait for what might amount to an extension of its supply, as it is wanted not for this or that purpose only but for all sorts of purposes, among which are some that have relation to the most imperious of our wants.

The reason, therefore, which is usually given for distinguishing between land and capital, however plausible it may appear at first sight, does not warrant our placing the former in a class by itself. For though it has been given as a limited quantity by nature, yet as even that limited quantity has not been fully appropriated and turned to account, the fixedness of the total supply cannot be taken as affecting its value or the size of the industries that exploit it. Besides, human intelligence has from

time to time succeeded in augmenting the serviceableness of those utilities of which the land is the source, and every such augmentation has practically amounted to an increase in their supply. On the other hand,. though the utilities which are created by human labour can be multiplied in response to increasing demand yet there is a theoretic limit to such a multiplication and even this limit is seldom attained because economic conditions forbid the extension of production up to it.* Thus land does not appear to be so very unlike other requisites of production if we confine our attention to the niggardliness of nature. And so the rationale of the view that it is unique among economic goods has to be sought elsewhere. Marshall indicates it when he comes to explain what he understands by 'the original and indestructible powers of the soil.' But he does not lay all the stress on it that it deserves, nor does he bring out its bearing on some of the most important economic prob-

* Fetter observes with perfect justice that whether a static or dynamic view be taken, it is necessary to take it alike of land and capital. Both of them must then appear to be fixed for the moment, or if the element of time is introduced, land must be regarded as an 'increasing and increasable factor' as well as capital, so that the difference between them as economic goods will rest only on the answer to the somewhat speculative question as to 'the probable future rate of their increase compared with the urgency of the demand'. There is thus, according to him, no good reason for assuming that there is an essential difference between the two kinds of wealth.

lems of the present day. The fundamental attribute of land, that which serves to mark it off from those material things which are its products, is according to him, extension. Extension, however, is the common property of all material things. And so all that he can mean when he uses the word in this way is that a certain area, a certain amount of space is what we require more than anything else when we seek land. Hence if I take up a certain extent of land in a district, there is less of it for everybody else there. If it were chemical and mechanical properties, which human ingenuity and labour might impart to land, my occupation could not injuriously affect others. But the space taken up by me curtails the supply of it in that particular place. There may be an abundant supply of equally good or even better lands elsewhere. And productive powers like theirs may even be reproduced. But the space cannot be transported, and this space is the first thing wanted and sometimes the only thing wanted. The establishment of a mill in a certain area does not preclude the establishment of a dozen more mills there, and a dozen more mills are likely to be established if economic conditions justify such an extension of business. But the occupation of a thousand acres of agricultural land out of an area of two thousand leaves only one thousand more to be exploited, though the local demand for raw materials may justify the working of ten thousand acres. Hence when I take up a piece of land, I immediately

raise the price of similar land that you may like to have, for the local supply of such land or space is reduced by my action, though there may be a superabundance of it if the entire stock is taken into account. But when I buy a plough, I do not in the same way raise the price of the plough that you would like to have, even when there is no such excess of actual supply over demand as there is in the case of land.* If Belgium produces more steel than it requires, the surplus affects the price of steel and machinery in India. But the presence of vast stretches of virgin land in Australia cannot reduce the price of land in a district of Bengal, unless it is able to cut down the demand, for the price is determined by parochial conditions of demand and supply unlike the prices of other instrumental commodities. Thus it is the immobility of land as extended surface, that more than anything else differentiates it from other instrumental commodities in the present stage of social and industrial progress.

* Fetter takes exception to the usual implication in such a statement. "Why," says he, "should the use of capital in a particular industry increase the total supply? The additional ploughs can be produced to meet the demand only by the use of the available appliances, which are limited in amount and which, if used for the ploughs, cannot be used for other things. There will be less productive power to put into other industries unless the general stock of wealth is increased. It is hard to see how the use of the existing stock of capital in one industry rather than in another can be assumed to be the cause of this."

It appears, therefore, that in explaining and justifying the familiar distinction between land and capital, Marshall introduces considerations which when pushed to their legitimate consequences practically amount to its establishment on a new basis altogether. And much the same may be said of his apology for the Ricardian theory of rent. One of its leading assumptions, as originally formulated, was that certain lands are by virtue of their properties capable under all conditions of producing more wealth than others, and that, therefore, they always pay a higher rent than these. Marshall points out on the other hand that 'many of those lands which are the least fertile when cultivation is merely extensive, become the most fertile when cultivation is intensive.' There are heavy clay soils rich in vegetable matter, which yield, as he observes, poor returns to the first few doses of capital and labour, but prove highly productive when they receive a very liberal treatment. He lays stress also on the liability to alterations in the value of different kinds of land in consequence of the changes that sometimes occur in the relative values of different sorts of agricultural produce. These are facts that militate against the simplicity of the Ricardian demonstration, which seems to assume that the original properties of every parcel of land fix for ever its place in the order of excellence and, therefore, its capacity for yielding a rent in comparison with other lands. Marshall contends, however, that Ricardo's

conclusion is not vitiated by the admission that the demand for different kinds of land is conditioned by the demand for their respective products and by the ability of the cultivators to exploit them.

He meets next those critics who think that Ricardo's theory is falsified by the fact that in densely peopled tracts all the land pays rent. The existence of no-rent land, is, he points out, not necessary for the argument, for rent is determined by the return to the marginal dose of labour and capital, i.e., to the dose which gives the lowest return, but which is still such as the farmer thinks he can profitably apply to the land. Whether it is applied to poor land or to rich does not matter. The argument amounts to this that 'since the return to this dose remunerates the cultivator, it follows that he will be remunerated for the whole of his capital and labour by as many times the marginal return as he has applied doses in all.' Ricardo's assumption, that every fresh employment of capital and labour on land is attended by a less than proportionate increase of produce, is not, indeed borne out by facts ; for even when the return to the first few doses of labour is small, a greater number of doses may under certain conditions wring from the land a more than proportionate yield and in exceptional circumstances successive doses may bring about an alternate rise and fall in the return. Yet broadly speaking it is true that in old countries, the application of increased capital and labour to land

is attended by a less than proportionate increase in the produce raised. Besides, whatever may be the future developments of the art of agriculture, a continued increase in the application of capital and labour to land must ultimately result in a diminution of the extra produce which can be obtained by a given extra amount of capital and labour.

To Marshall's enunciation of the principle of diminishing returns, no exception can be taken. But it has been already observed that the law is of universal application and so cannot account for the emergence of a special revenue in the field of agriculture. Machinery is an instrumental commodity like land ; and if you are the owner of a mill, you know that you cannot beyond a certain limit secure a return proportional to every increase in the labour force that works it or in the raw materials which it uses up. Improvement in organization may push back this limit. But this happens in agriculture as well. So we do not light on an exceptional phenomenon when we discover that unless the farmer can adopt more efficient methods or get hold of more land, his application to his holding of farming stock and labour, which are only complementary commodities in agriculture, cannot be pushed beyond a certain limit without a decline in the rate of profit.*

* In a luminous article in the *Quarterly Journal of Economics*, Carver gives a mathematical expression to the law of diminishing returns which shows clearly that it has a much

Marshall virtually admits this in a number of passages, a reference to one of which will answer our purpose. 'If', says he, 'a manufacturer has three planing machines, there is a certain amount of work which he can get out of these easily......But after they are once well employed, every successive application of effort gives him a diminishing return.' Thus there comes a stage in the expansion of his business at which he finds it cheaper to buy a fourth machine than to force more work out of the old ones, just as a farmer who has already cultivated his lands highly finds it cheaper to take in some

---

wider application than is generally given to it. His exposition is given below *in extenso* :—

"If x acres of land with y units of labour and z units of capital will produce P units of product,

then x acres of land with ay units of labour and az units of capital will produce more than P but less than aP units of product.

(it being assumed that a is a plus quantity greater than one). But this formula can be considerably extended :—

For ax acres of land with ay units of labour and z units of capital will produce more than P but less than aP,

and ax acres of land with y units of labour and az units of capital will produce more than P but less than aP.

If we conceive of a fourth factor, *viz.* 'management' and assign to it a quantitative expression, we can still further extend the formula :—

If x with y with z with m will produce P, then ax with ay with az with m will produce more than P but less than aP, provided the limit has been reached beyond which large scale production is less productive."

extra land than to extort an ampler return from them. There are, therefore, points of view from which we detect a close similarity between rent and the income attributable to machinery. Then where lies the difference? Evidently in the fact that unlike machinery, land cannot be multiplied where it is wanted.

This is clearly seen by Marshall and even emphasized by him; but in his anxiety to defend the Ricardian position, he does not give it all the emphasis that it deserves. He admits that the law of diminishing returns is of universal applicability, but contends at the same time that it has a special significance in agriculture. "If", says he, "a man expends an inappropriately large amount of his resources on machinery, so that a considerable part of it is habitually idle; or on buildings, so that a considerable part of his space is not well filled; or on his office staff so that he has to employ some of them on work that is not worth what it costs; then his excessive expenditure in that particular direction will not be as remunerative as his previous expenditure had been; and it may be said to yield him a diminishing return." These are, however, illustrations of misfit due to ignorance or want of ability in the entrepreneur and resulting in avoidable losses, while instances are not infrequent in industry of a disproportionate employment of one or the other factor of production in circumstances that justify such a departure from the adjustment which is cal-

culated to yield the highest return. In times of brisk trade, manufacturers often pay overtime on a liberal scale to their operatives, though they know that the labour thus purchased is not quite as efficient as the labour put in during the normal working day. Where, again, the human factor in production is scarce and improved machinery is within easy reach, the latter is used up to a point at which a redistribution of resources, so as to secure more of the former were it available, would give the best results. The law of diminishing returns is operative in these cases in the same way as it is in agriculture. And what is more, the manufacturer, generally speaking, realizes better than the cultivator how far it punishes him. Yet he is not deterred by the calculation from expanding his business by a disproportionate use of one or more of the factors of production, because he knows that the augmented demand for his commodity will amply compensate him for any injury which may be due to the comparative inefficiency of some of them. Marshall, however, seems to suggest by a number of illustrations that the law of diminishing returns sets the limit to which capital and labour are employed in industries other than agriculture, and that this limit is not transcended except as a result of ignorance, the mischievous consequence of which immediately leads to a redistribution of the agents of production in such a way as to secure the due proportion of each. A maladjustment like this is, therefore, comparable accord-

ing to him to the indiscretion of a farmer, who spends more in certain directions and less in others than he ought to do and suffers for his folly owing to the relative inefficiency of the factor which is over-applied. The effect of such a misapplication of resources has, of course, to be distinguished from the decreasing yield of successive doses of capital and labour where none of them can be regarded as injudiciously applied. And Marshall finds fault with American economists, because they do not, in his opinion, lay due stress on this distinction in their observations on the nature of rent. But though there is a world of difference between the two kinds of disproportionate use of the factors of production, yet instances of both of them are almost as frequent in manufactures as in agriculture, so that the surplus produce of the latter, which goes by the name of rent, cannot be due to the circumstance that the returns to successive doses of capital progressively decrease even before the limit of profitable employment is reached.

In fact, it is only in the static state, which is after all a convenient economic fiction, that industry can be so organized as to ensure the maximum efficiency of each of the agents of production. In actual societies, on the other hand, improvements in technique and fluctuations of the demand are constantly creating occasions for a readjustment of the agents of production, while the difficulty experienced in making the requisite alterations in

their proportions stands in the way of an immediate and automatic readjustment, so that the history of industry is really made up of a series of oscillations round the centre of repose. There is, of course, always the tendency to return to a state of equilibrium, where the instrumental commodities can be increased, as it is obviously the interest of the entrepreneur to combine them in the right proportion, while in agriculture such a satisfactory arrangement is, generally speaking, out of the question owing to the impossibility of increasing the stock of one of the requisites of production. This distinction, however, is not rendered clearer by bringing in the law of diminishing returns which is not only universally applicable but also universally operative. Besides, the law cannot from the nature of the case explain why rent should be offered for land where it is merely a direct commodity. Nor can it account for its emergence where, as in Ricardo's first illustration, land No. 2 is cultivated to meet the augmented demand for corn without any attempt to obtain more from land No. 1 by a more intensive cultivation of it. It may, indeed, be said that if additional applications of labour to land No. 1 could earn as good a return as the labour which is already working it, then the need would never arise of cultivating land No. 2. But the same might be said of other factors of production. And Marshall evidently draws a distinction where there is not much difference when he says that were it not for

the tendency to a diminishing return, "every farmer could save nearly the whole of his rent by giving up all but a small piece of land and bestowing all his labour and capital on that." For if the output were always proportional to the application of labour to machinery, a single weaving mill might clothe an entire community and the cost of setting up the scores of mills that are at work in it might thus be saved. Land, it is true, is exhausted by co-operation with capital and labour, and hence its productivity declines with every fresh application of these. But land is not unique in this respect. The second hour of the labour of an operative is not quite as productive as the first, and though the outturn of machinery may not vary in the same way, yet it is worn out more or less by activity, so that the cost of maintaining it in proper order increases and its net productivity declines with the amount of work that is obtained from it. The tendency to a diminishing return when viewed in this light appears to be the outcome of the universal law that work entails exhaustion, and so it must be in evidence wherever there is work. It is, indeed, taken for granted in every enquiry into the nature and conditions of the production of wealth and so cannot satisfactorily explain the emergence of a special income like rent. The circumstance which really accounts for it is, as Marshall points out more than once, the fixedness of the supply of every grade of land and of the total supply of it, though he accentuates unduly

the difference between it and capital goods by ignoring the effect of improvement and assuming that its supply in the economic sense is inelastic because the "gift of nature" is definite and unalterable in extent.

When, again, Marshall says that 'since the return to the dose on the margin of cultivation just remunerates the cultivator, it follows that he will be just remunerated for the whole of his capital and labour by as many times the marginal return as he has applied doses in all', he makes an unwarrantable assumption. This dose is defined as a small amount of capital which the farmer after he has practically finished his farming operations decides after some hesitation to apply as being just worth his while. But what he expects as return for such a dose may not be considered a sufficient rate of profit for his total outlay. If, for instance, after spending Rs. 1,000 in working his farm, he finds that he has Rs. 100 still, which when applied to the land will bring him a return that will just exceed the interest on the safest investment, he will even if guided by purely economic considerations apply it in this manner, though such a return on the whole of his investment will not satisfy him. Similarly a peasant farmer might for a very small gain take some additional trouble, though he knows that such a rate of gain on his entire expenditure of capital and labour will not maintain him.

It follows, therefore, that the surplus produce or

rent may not be accurately determined with reference to the return to the marginal dose. Is the standard return then to be found somewhere higher in the scale? In answering this question, we have to take into account the possibility of a variation in the farmer's estimate of what is an adequate rate of return not merely when he is approaching the limit of his investment, but also at every stage in the application of capital to his land. For though any amount of capital may be attracted by the prospect of earning the current rate of interest, yet the risk and trouble in handling increasing quantities of it may appear great up to a certain point and small after that and great once more in a manner that will probably defy all attempt to fix upon a certain rate of compensation as normal throughout his undertaking. Marshall, however, overlooks this element of uncertainty which vitiates the process when he observes that "since the return to the marginal dose remunerates the cultivator, it follows that he will be remunerated for the whole of his capital and labour by as many times the marginal return as he has applied doses in all." This is seen at once if we turn once more to his definition of the marginal dose and try to determine how far it may be legitimately introduced in an explanation of rent. The doubt and the hesitating decision to which he so felicitously refers in his interpretation of the term must always be peculiarly personal as being relative to the ability, the ambition, the

resources and the necessities of every individual farmer. Thus the size of the last investment, or if that must be uniform and indefinitely small, the location of this marginal dose may not be the same in any two instances, and with every variation in its size or position, the rate of return must differ. Besides, we cannot get a normal or ruling rate of marginal return by taking the average of these differing returns, for from their very nature they are closely related to the perplexing variety of individual wants and aspirations. Hence though there is no unwarrantable deviation from reality in speaking of the ordinary rate of profits, yet the tendency to generalize is carried too far if the marginal return is treated as a more or less definite rate that may form the basis of a calculation of rent and profit.

Marshall's formula fits in very well, indeed, with the line of explanation of rent which is indicated by the law of diminishing return and is after all only an idealized expression of it. But if we are to use it to measure rent, the basis of calculation must be not actual marginal returns or the average obtained by a comparison of them, but the return that leaves no surplus after the cultivator has been remunerated at the usual or ordinary rate. So the concept of marginal return involves the more familiar concept of a standard rate of profits. And the only merit which can be claimed for it is that it brings into prominence the fact that under competitive

conditions, rent is fixed by the offer of those who are prepared to work the land up to the limit or margin at which there is no surplus after allowing for ordinary profit and cost of cultivation. This is, indeed, the element of truth to which the Ricardian theory owes its vitality and value. But when it is freed from ambiguity and interpreted in this manner, it is seen to have a wider scope than is generally assigned to it. For the hire and price of other instrumental commodities are fixed in much the same way, the effective demand for them being the demand of those who are able to work them so long as there is any extra income to be derived from their use.

It appears, therefore, that land as an economic good is not quite unlike other instrumental commodities. But it has been separately classed by men of business and practical politicians as well as by economists. And, as already observed, there must be a sufficient reason for this consensus of opinions. It is a subject to which we shall return once more in the concluding chapter of this book. But there are a few points relating to it which ought to be discussed here because they have claimed the attention of Marshall. He joins issue with Adam Smith when he observes that there can be no justification for describing rent as a monopoly price even where every bit of land is occupied, so long as there is a free market for it. But free market for

land means simply the absence of restraints imposed by law or custom on the transfer of its ownership or possession. It does not imply also as it does in the case of other commodities, the possibility of increasing the supply in response to augmented demand. Where this possibility exists, the price is in the long run beaten down by competition to the cost of production. But where it is absent, the dealers in the commodity fix the price which will give them the largest profit ; and if it is one which costs them nothing, the price may range from a very low to a very high figure according to the nature and elasticity of the demand. For it may very well be that their earnings are larger when the whole of the supply is taken up at a very low price than when a considerable portion of it remains on their hands while the rest has a higher exchange value. But even when the dealers thus dispose of the whole of their commodity, they must be regarded as monopolists. They control, though they do not restrict, the supply, and they regulate the price in their interests. The case is altered, no doubt, when there is competition among these dealers, for then none of them can be said to determine the supply and thus to fix the price, though the total supply is a definite and unalterable amount. The commodity has under the circumstances a scarcity, but not a monopoly, value. And such is also the value of land, according to Marshall, in thickly inhabited countries with no surplus areas which might

be occupied by increasing numbers.* But the owners of more or less extensive estates are not exactly in the position of the competitive dealers in our illustration, for it is not possible for any of them to offer a commodity resembling in every respect that which another refuses to part with. Landlords could be monopolists in Marshall's opinion only if they combined to stint production. Such a combination, however, is not required where location is more important than fertility. Each of them is a monopolist so far as there is a demand for his commodity which cannot be fully satisfied by a similar commodity elsewhere. He cannot, of course, fix whatever price he chooses on it ; but all monopolists have to regulate the price of their commodity with reference to the possibility that there always is of competition with some cheap substitute.

But even if we hold with Marshall that land can have only a scarcity value, it does not follow that circular reasoning is involved in the position that its rent may be an element in price-making. He contends that rent cannot be a governing cause because it is itself governed by the price of the produce. But where the scarcity of land enables

* Nicholson subscribes to this view and observes in support of it that "the essence of monopoly is not limitation but absence of competition." He overlooks, however, the fact that circumstances generally prevent effective competition among the 'dealers' where the commodity is land.

the owners of it to demand a consideration for every bit of it that may be profitably utilized, the supply price of the produce is determined not only by the extent and fertility of the available land and the resources of those who are ready to utilize it, but also by the price which has to be paid for its possession. And this scarcity, it should be noted, exists even where there are wide stretches of unoccupied land, if their employment appears to be a hazardous undertaking in the circumstances of the industries that might exploit them and in view of the intensity of the demand for their products. "The general conditions of demand and supply," says Marshall, "or their relations to one another are not affected by the division into the share of rent and the share needed to render the farmer's expenditure profitable." But the share of rent does affect the supply, if it is demanded for all the land that it may pay to use for industrial purposes. This is, indeed, nowhere better expressed than in Marshall's own account of the conditions which affect the progress of colonization. The land in a new country, says he, is occupied up to the margin at which the gains are just adequate to remunerate the pioneer unless a charge is made for the occupation of land, "when immigration spreads only up to the margin, at which the gains will leave a surplus to cover such charges in addition to rewarding the pioneer's endurance." Here then rent does affect the supply and enter into the cost of production.

And it enhances the cost without affecting the supply where it has to be paid for all the land under occupation while a descent of the margin is prevented by the comparative infertility or inaccessibility of the rest.*

---

* Rent, therefore, would seem to be an element in the price of agricultural produce in old countries like England and India, for only a negligible portion of their total area is occupied rent-free, though they may contain vast stretches which lie waste, because the state of the market or of the industrial arts prevents a profitable employment of them.

CHAPTER IV

Marshall's theory is based on the experience that in the application of capital and labour to land, there comes a stage at which the return is, all things considered, equal to what they may earn in other lines of business. The farmer may stop short of it or go beyond. But under competitive conditions, he must be prepared to surrender to the landlord whatever remains of the produce when it is worked up to this limit, and profit is allowed for at what is then the marginal rate of return. For competition cannot deprive him of the reward of exceptional industry or permit him to earn the usual remuneration when his cultivation is less intensive than it may very well be under the prevailing economic conditions. Thus the producer's surplus, which becomes rent, is determined with reference to the scale of profit that appears to be normal when compared with the earnings of capital and labour in other fields of industry. It is this scale that determines the intensive margin for our purpose, and since the return at the margin just covers the outlay with ordinary profits, it is obviously a no-rent margin which may serve as a convenient base-line for the measurement of rents. But as Fetter observes, if the yield of the other factors of production is similarly studied by the method of mathematical

increments and marginal products, each of them can be regarded as reaching at last a point of no-yield to the undertaker from which their value may be estimated. Their value, however, it is said, enters directly into the cost of production, while that of land does not. But in the circumstances here contemplated, rent is as much a cost as wages and prices of stock, as it has to be paid for all the land under occupation if the supply of the produce is to be maintained. And the idea that it is a surplus is due to the circumstance that it is not necessarily nor even often a compensation for previous sacrifice by its receiver, just as the price of machinery is to the man who manufactures it. But though land has no cost of production, yet except in circumstances which have been already referred to, it is not a free gift to undertakers, and so they expect to be indemnified for all that it costs in the price of its produce. Thus rent is not correctly marked off from the hire of machinery by observing that it is "a result and not a cause of the selling price of its products."

While Marshall lays stress on the presence of an intensive no-rent margin of utilization in his exposition of the Ricardian theory, prominence is given by Fawcett and Walker to the extensive margin in their method of explaining it. Fawcett meets an obvious objection to the doctrine, when he observes that the rent of superior lands is the difference between their net produce and that of

the land which barely repays the cultivator for his labour and so pays only a nominal rent. But there is nothing in the nature of the supply or of the demand that guarantees a merely nominal rent to the least productive soil under occupation. And it is quite conceivable that under certain economic conditions this rent will be high, while if there are no marked variations in fertility, the differential element in the rent of superior lands will be small and even negligible. Besides, in laying down this principle, he does not attach due weight to the fact that competition is never equally keen for all grades of land and that they do not for obvious reasons receive the same treatment for purposes of production. Walker's enunciation is more careful, as according to him, "the rent of any piece of land is determined by the difference between its annual yield and that of the least productive land actually cultivated for the supply of the same market under equal applications of labour and capital." But he does not explain why rent should be viewed as consideration of a unique character when he says that it arises out of differences in the productivity of different soils, for the hire of every other requisite of production may be similarly regarded as determined by its relative efficiency.

Lastly we have an elaborate synthesis of the two aspects of the theory by Hollander in a brilliant article in the *Quarterly Journal of Economics.*

"Assuming," says he, "a gradual descent in extensive fertility and in intensive productivity, an increased demand will cause a simultaneous recession of extensive and intensive margins. And each margin will recede the less because of the accompanying movement of the other." Thus the development of agriculture and the emergence of rent are, according to him, shown less appropriately by the familiar horizontally inclined line than by a plane inclined both perpendicularly and horizontally, "the first inclination representing the declining fertility of different soils ; the second, the declining productivity of the same soil, upon the application of successive portions of labour and capital" And he concludes, therefore, that the rent of any particular piece of land may be measured indifferently from the extensive or the intensive margin. But the consideration paid for the use of machines may be viewed in the same way as determined by their marginal productivity as well as by their superiority to appliances, which owing to their extreme inefficiency fetch little more than scrap iron. Moreover, when there is an augmented demand for their products and a consequent rise in prices, machines even less efficient than these are brought into requisition while an attempt is made to get more work out of such as are already in use. Thus both the intensive and extensive margins recede as in the case of land and new base lines are provided for the determination of their values. It appears, there-

fore, that the Ricardian theory has a wider scope than is generally attributed to it and so fails to offer an ultimate explanation of the distinction that is usually drawn between land and capital goods.

An attempt has been made to explain and justify the line of enquiry which was followed by Ricardo by defining rent as the periodical payment for those differential advantages which as the free gift of nature are incapable of increase or diminution by human effort. When thus interpreted, it is contrasted with quasi-rent or the price of special excellences which as the result of industry or skill or of favourable conjunctures tends to disappear under the stress of competition. But against such a distinction it has to be observed that the rent of land, if it represents a differential advantage, can not be the value of mere extension and the geometrical properties of space, which alone are indestructible, for they are possessed by every bit of the earth's surface. Hence even the staunchest Ricardians point to the patent inequalities in productiveness of different soils as a cause and measure of their rents. But this natural fertility to which they refer is generally speaking only a more or less suitable combination of certain chemical and physical properties which are worn out in course of time and may be restored or improved by an intelligent treatment of the soil. And accessibility, which is mentioned as the other cause, is obviously dependent on the available communication with the market and

so may lose all its value in any particular case if transport facilities open up rival tracts for exploitation. There are, no doubt, natural advantages of situation ; but they have been generally improved upon, while advantages equally important have been secured by human skill and enterprise where new areas have been brought into economic relation with industrial communities. Besides, these are paid for in exactly the same way as the natural advantages and are often quite as durable and independent of the will of the landlord. So there is no solid justification for distinguishing between the price that is paid for natural superiority of location and that which is attributable to such favourable "time and toil relations" between distant areas as are created by human effort. We are thus led to conclude that in defining rent as consideration for natural differential advantages, sufficient account is not taken of the triumphs of science and the actualities of modern industrial life, while the field of observation is arbitrarily restricted to the facts of agriculture. For it is only when we limit our attention to these that the so-called original fertility of land, proves to be an important factor in the determination of rent. It is of no account whatever in other uses of land, and, as List observes, the highest rents are paid for tracts "whose natural productive capacity has been totally destroyed, and which serve no other purpose than for men to eat and drink, sit, sleep or walk, work or enjoy themselves, teach or be

taught upon." It appears, therefore, from a wider survey than is generally taken that the rent of land is not the creation of an active principle that augments the effectiveness of labour and capital by contributing its distinct quota to what they produce. It is commensurate, as Menger observes, with the fitness of land for the purpose to which it is applied and with the importance of that purpose. But since this fitness is as often as not the outcome of social and industrial arrangements and since land sometimes loses value like any other instrumental or direct commodity, the concept of natural and enduring differential advantage fails to differentiate rent in economic character from quasi-rent on the one hand and the hire of capital goods on the other.

Hence certain contemporary economists have, following the lead of Clark, decided to extend the application of the term so as to denote by it the value of every kind of differential advantage or excellence that ensures a surplus return. When taken in this comprehensive sense, it is really a name for the entire income of the property-owning classes, which being also the earning of the total fund of capital is as such denominated interest. Much may be said in favour of the wider signification, which is thus given to the term. It brings into prominence the truth that if the special revenue from land is to be regarded as a differential return, there is equally good reason for treating the gain from every other instrumental commodity in the

same manner. And by classing land with other capital goods, it cuts at the root of the old doctrine that land is altogether unlike other instruments of production in the service that it renders and in the manner in which that service is valued. Land is paid for, because the farmer can earn a profit for himself by combining it with labour and other instrumental commodities. But the same may be said of machinery, which is bought or hired, because it pays the manufacturer to combine it with other factors of production. There is thus no valid ground for a distinction so far as the nature of the demand for them or even their demand price is concerned.

But the use of the term, rent, to denote differential income of all kinds leads to an attenuation of its content, which obscures an important problem of distribution. In every modern society all the wealth that is produced from year to year reaches individuals in four more or less well-defined forms, which are known as rent, interest, wages and profit. None of them is strictly speaking necessary for production, for it is quite possible to imagine a state of things in which the annual produce goes undivided to the producer. So they are social phenomena, and corresponding to them there are in civilized communities classes of men who share the social output among themselves. Now the problem relating to distribution is to determine the principles in accordance with which this sharing takes place and to pronounce on the justice and expediency of the

arrangements which necessitate it. But the *raison d'etre* of the different shares is not the same, nor do they appear to be equally necessary for the proper working of the existing system of production. Interest, for instance, cannot be abolished, for the prospect of earning it acts as an incentive to saving and thus to the formation of capital, while rent can not in any sense be regarded as essential to the creation of land or to the maintenance of the present amount of it. Capital, again, may increase from year to year and does, indeed, increase in this manner in progressive communities ; but they can not generally speaking add to their possession of land without depriving others. These are important distinctions, and they point to a difference in the nature of their special revenue and in the conditions by which their supply price is regulated. But the use of the same term to denote the revenue from land and the revenue from capital goods is calculated to disguise these differences and to lay undue stress on the undoubted fact that the two agents are equally necessary for purposes of production.

But for reasons already given the view that rent is the price of natural differential advantages is unacceptable though it has found favour with a number of brilliant writers on the subject. It is moreover open to objection on the ground that it involves a theory of the emergence of rent which requires to be substantiated. If the price of agricultural produce is high enough to leave a surplus after properly

remunerating the cultivators of superior land and yet not sufficiently high to make it worth the while to cultivate inferior soil, rent will still appear though it will not be a measure of the difference in the productivity of the two kinds of land. The view that variations of the so-called natural advantages are continuous so that whenever a surplus appears on land A, it becomes immediately profitable to work land B, is a convenient assumption for the purposes of this theory ; but it may not accord with the facts of industrial life in any area which is sufficiently limited to allow a comparison of the excellence of the several plots for the determination of their rents. The objection disappears if the comparison is understood as taking place between the farmer's business and other lines of occupation that are open to him. He pays for the land because his labour and capital when combined with it bring him more than they could have earned without it. But it is precisely for the same reason that the tailor hires his sewing machine ; and the addition of the word 'natural' does not correctly mark off the differential advantage in the two cases. It takes us back, in fact, to the untenable position of Ricardo who tried to draw a line between rent and interest by defining it as periodical payment for land as it came from the hand of nature.

But though scientific subtlety is at fault in this matter, yet there are obvious reasons for drawing a line between the rent of land and the income

from other instrumental commodities. The extent of suitable land in any well-settled area is limited and fixed for all time, so that the appropriation of any portion of the available supply means a curtailment to that extent of the opportunity of making an income from land by all but the appropriators. But the appropriation of all the machinery in the world could not prevent those who are in need of it from manufacturing equally good machinery and turning it to account. It is this difference in the nature of the supply in the two cases that is indicated by Carver when he calls land the basic factor in production from which all sorts of capital goods are ultimately derived. The materials out of which these are made may be exhausted in certain parts of the world ; but the deficiency is generally made up by calls on other parts for increased production. And even when the conditions of such exploitation are not quite as favourable as before, their effect is felt not in a stinting of the supply but in enhancement of the cost of obtaining it. The farmer too, it is true, may have as much land as he likes if he is prepared to pay for it at a higher rate than he has hitherto done. But when he thus extends his holding, his neighbours must be content with a smaller slice out of the total supply, while the expansion of an industrial concern does not involve in the same manner the curtailment of the size of rival establishments. The appliances required for their growth may not, indeed, be forthcoming

where they are, but these may almost always be procured in sufficient quantities if prices improve under the stress of augmented demand. But though augmented demand has a similar effect on the price of land, it does by no means induce a corresponding extension of supply even when there are vast stretches of unoccupied but suitable land in other parts of the world. Hence it is an object of far other importance to the producer than other requisites of production. If he wants a new machine or a draught horse, he may have it without being under the necessity of travelling to it; but if the land which will best answer his purpose is at a distance from his home, he must change his domicile in order to use it, while a change of domicile may not be desirable on sentimental or even prudential grounds. These are considerations which give force and pungency to attacks on the private ownership of land, and they justify at any rate the treatment of it as a class by itself among the agents of production and the restriction of the term, capital, to "the concrete, material articles which are produced by human effort and used by their owners for the purpose of earning an income."

There is an ingenious vagueness in the line of argument that is usually adopted to prove the essential likeness between land and other economic goods. While it is contended on the one hand that it is *sui generis,* because nature has given it as an

unalterably fixed supply, those who find fault with this position point out that every improvement in the extractive industries or in the means of transport extends the limits of this supply, if the word is understood, as it ought to be, in the economic sense. There is, indeed, a 'jump in thought' in the writings of some economists from the capacity of land to yield utilities to its physical area ; and their case is not much improved by merely drawing a distinction between its primary qualities and those which are reproduced by human effort. For land is rarely valued simply on account of its primary qualities, and the properties and conditions which have a controlling influence, so to say, on its utility and therefore on the demand for it, are certainly capable of being modified and even improved. In fact, science and enterprise have widened in a twofold manner the limits to which there is such abundant reference in the earlier text-books on the subject. They have enabled man to extend the area of exploitation and at the same time to exploit more fully the resources which he had before imperfectly utilized. Thus it is not true that the niggardliness of nature has set inelastic bounds to the amount of utilities that may be obtained from land. The number and quantity of useful things that may be derived from it are, as Pierson observes, determined not merely by the number of square miles of it that nature has placed at man's disposal, but also by the extent to which he has succeeded in discovering its

manifold properties and in turning them to account. And surely it is not outside the bounds of possibility that the properties which still remain to be discovered and utilised are much more numerous and important than those which have been already exploited.

If, however, the productivity of land is an element of unknown variability, being dependent on the state of human knowledge and skill, then the fixedness of its stock cannot differentiate it from capital on the ground that there are no assignable limits to the supply of the utilities that are afforded by the latter. Hence both of them have been regarded by some economists as increasing and increasable requisites of production, which differ from each other only in the rate of increase of their efficiency in ministering to human wants. But though land is susceptible of improvement like machinery, yet if I appropriate the best land in my village, I render it impossible for my neighbour to make as much by the business of a farmer as I do or he might have otherwise done, while my possession of a lathe, for instance, of the most improved pattern does not prevent him from buying another which is quite as good and turning it to equally satisfactory account. When viewed, therefore, from the standpoint of the producer, the fixedness of the stock of land takes a different colour altogether, which marks it off with sufficient distinctness from reproducible

instruments of production.* And this shift to the producer's view-point is justified by the conspicuous circumstance that the exploitation of land is still the most considerable industry, employing a far larger number of hands and a far greater amount of capital than any other single business, however successful and important it may be. Besides, as the commodities which they obtain from the land are of special importance either as necessaries of life or as raw materials of other industries, the bearing on the distribution and production of wealth of the fact that every act of appropriation occasions a scarcity of it is enough to justify its treatment as unique among the requisites of production.

It follows, therefore, that the use of the same term to denote the revenue attributable to these two classes of productive agents is unfavourable to an etiological enquiry in spite of a certain degree of similarity between them. At the same time it is

---

* The dissimilarity as well as the likeness is noticed by Pareto in the following manner,—"The price which we pay for the use of land differs in no way from the price payable for any other capital, say an engine. After having restored the land or the engine, to the same condition in which they were received, we pay a certain sum in addition, only because these capitals .... are economically rare. What distinguishes the case of the land from that of the engine is *that savings earned* by the use of the latter may be easily and rapidly invested in other engines, which cannot usually be done in the case of land, or only at such prices as to be no longer advantageous."

certainly not conducive to clearness of thought to ignore this similarity and to treat the rent of land as altogether unlike other forms of income. So an attempt will be made here to point out in the first instance how far it resembles the prices of other instrumental commodities in character and causes and then to indicate the peculiar circumstances which serve to differentiate it from them. Rent is paid because there is a demand for land. This is a composite demand, however, for unlike machinery or raw material, land is sometimes a direct as well as an instrumental commodity. Where such is the case, it is devoted to that service for which the highest price is offered. The field of competition of this kind is doubtless restricted; but elsewhere there is competition among the various agricultural and other productive uses for which the land is fitted, with the result as it would seem that every portion of it is allotted to the most remunerative use of which it is capable. But as different rates of profit are to be found even in the most advanced communities, the most remunerative use must be understood as meaning the one which offers the largest margin of surplus product for appropriation by the landlord.

This margin appears of course only where capital and labour employed on the land produce more than they could have done by themselves. It is quite conceivable that the price of agricultural produce may be so low or the rates of wages and

profits so high as to wipe out such a margin or even to render impossible a profitable utilization of the land. Hence though the surplus income when it appears is imputable to the land on the ground that the capital and labour applied to it could not have earned it singly or even in combination, yet it is certainly not the outcome of any mysterious properties of the soil, being dependent on the range of prices of agricultural produce and on the current rates of remuneration of capital and labour. Neither has it any direct connection with the patent inequalities in productiveness of different lands, for it may arise even when all the land is of the same degree of excellence if the prices of agricultural products are high enough to leave a surplus after properly rewarding capital and labour. If we look at it in this way, it seems to fall under the same category as the price of machinery, for this price is only the capitalized value of the advantages expected from successive uses of it as an instrument of production. They appear so widely different in character because in some of the most advanced countries, the letting of land for a number of limited uses is the rule, while the letting of machinery in the same way is an exception. But the consideration for a temporary and qualified transfer of possession in the one case and that for a complete alienation of ownership in the other are determined in exactly the same way. The farmer agrees to pay a certain rent for his holding, because he knows

that the prices of agricultural produce will permit him to pay it after indemnifying himself for his outlay in labour and capital. The manufacturer offers a certain price for his machinery because he is sure that unless current prices are much disturbed, there will be a balance after a similar reimbursement, considerable enough to cover in a succession of years his total expenditure on account of the machinery and normal interest thereon. And as the stock of machinery and that of land are alike limited at any particular moment, it follows that if we take a cross section of the life of an industrial community, as we must do in order to analyze the phenomena of exchange, the rent of land will appear to be governed by the same forces and laws that exercise a determining influence on the price of machinery.

The difference between them appears, however, when we study social history with a view to observe how they are affected by a change of circumstances. If population increases while other things remain unaltered, the income of those who control the supply of land must increase along with it, so that in course of time it may be far in excess of what would be regarded as normal profit on their investment, while under the same circumstances the prices of other instrumental commodities so far as they are reproducible cannot deviate much from the cost of their production. If on the other hand there is a decline in numbers or a falling off for some other reason in the demand for agricultural produce as

well as for other commodities, then the rent of land which is a free gift of nature may sink to anything short of zero, while the value of other appliances of production must even under unfavourable conditions correspond more or less to the cost of producing them, as their supply decreases with every diminution in the inducements to keep it up. Their value is fixed, indeed, at any particular moment by the same causes, *viz.*, the degree of their fitness for the attainment of the object for which they are employed and the value attached to that object in the circumstances of the society at the time. The difference however, between them appears to be very real when we shift our point of view and take into account not their immediate determinants, but the mutations of circumstances in which these operate. For then the fact that the supply of capital goods is more or less like a stream which expands or contracts with the variation in the effectual demand for their products, while the primary qualities of land, *viz.*, space, location and support, in which its other qualities, natural or acquired, inhere are themselves incapable of being increased or destroyed, serves to mark off rent from the hire or price of other instrumental commodities in such a way as to justify our placing the former in a class by itself.

But it is not merely under dynamic conditions that the fixedness of the stock of land has a controlling influence on the distribution of wealth. Its

effect is felt even in a stationary state in the manner in which rent determines wages and profits, instead of being wholly determined by them. For rent is not correctly measured in terms of mere differential advantages unless labour and capital are thoroughly mobile and there is an available reserve of no-rent land on which they may be profitably employed. These, however, are almost ideal conditions, and where the circumstances are different, the charge for the occupation of land does trench on the earnings of labour and capital. Even in an industrial country like England, full advantage is seldom taken of competition to force up rents, and they go very much by tradition and custom under the pressure of public opinion, because it is felt that rural labour and capital cannot migrate to other lines of productive work without difficulty and loss. And the disadvantage is much greater where industry and commerce do not furnish an extensive and ever-widening field for their occupation. So long, therefore, as the exploitation of land is the most considerable item in the economic organization of the greater part of the world, we are well within the bounds of material accuracy if we say that those who are engaged in other pursuits form the overflow of the rural population, whose departure for other avenues of employment does not sensibly affect the rates of wages and profits in the primary industries. At the same time, the limited scope for earning a remunerative return which is offered by these new

lines of work and the magnitude of the field from which the workers are recruited prevent them under competitive conditions from earning more than what is only a just return for their superior energy and enterprise. So it is truer or at any rate more precise to say that except in countries which are advancing with rapid strides towards an industrial economy, wages and profits are determined for all sorts of occupation by the earnings of labour and capital in rural industries than to assume that agricultural wages and profits are regulated by the demand and supply of these factors of production in the outside market. If therefore a price is demanded for the occupation of every bit of land that is worth occupying, it is sure to depress them, as there are no extraneous forces to pull them up. Such a result may not be in evidence if agricultural prices move up in such a way as to cover the charge. But the charge cannot by itself improve prices, for so long as the demand remains unaltered in intensity and volume, the determining factor is the total supply, and this supply is not affected by the circumstance that a portion of it goes to the landlords. Moreover, since the only limit to their exaction is the apprehension that it may drive labour and capital to other fields of employment, it is permissible to conclude that the burden of rent is heaviest so long as agriculture is the only important industry and those who are engaged in it are necessarily conservative. Such, indeed, was the early experi-

ence of most modern communities till custom lightened the load by assuring to the cultivator the benefit of every improvement in his technique and in the demand for his produce. Custom however, ceased in course of time to govern economic relations in most of them. And then rents soared up once more with every fresh increase in the variety and productiveness of his work, till at last a fresh check to its progressive enhancement was furnished by the demand for labour and capital in other fields of employment. But in the greater part of the world, this demand, weak and insignificant as it is, has not yet enabled labour and capital to profit in any large measure by their increasing efficiency or by the augmenting demand for their services.

There is doubtless some sort of correspondence in progressive countries between agricultural wages and profits and the rates of remuneration that obtain in other departments of productive work. Agricultural rent in them appears, therefore, more like a residual share or a differential gain calculated from a no-rent margin. But it is probably in these that the true nature of rent and of its influence on the welfare of the community is most abundantly illustrated. For rents are highest in the busy centres of trade and manufacture, and the price which is paid for the best agricultural lands cannot compare with what is demanded and offered for the least advantageously situated plots in them and in important sea-

ports. And since the services which they render are so widely different in character, it is mere refinement of reflective analysis to set down the difference between urban ground-rents and the consideration paid for corn lands to a measurable difference in their productivity. Besides, it cannot be said that rent does not enter into the cost of those commodities which are manufactured or brought to market in the seats of industrial or commercial enterprise, for the portion of it which is not a differential return has to be paid if these are to be supplied under modern conditions, and even this portion is often much more considerable than the rent of the most fertile land in rural areas. But the special fitness of which it is the price is the result of social arrangements with reference to sites which possess certain natural advantages that are limited and not easily reproducible. The landlord's outlay has in the majority of instances contributed very little to its value, though he gets the full benefit of it. Much the same may be said of the high price paid for land in fashionable quarters of large cities and in health resorts. So a survey of urban ground-rents points to the conclusion that they emerge as a consequence of progress, social, economic or political, which not only creates a demand for certain kinds of commodities, but offers facilities for their production which would have been out of the question without it. The landlords are, no doubt, keenly alive to every phase of this development and they

turn it to account ; but their sacrifice for this purpose is as a rule out of proportion to their gain. All this is true of rural rents as well, though their progress has been less marked and has sometimes alternated with a decline when in the race between the supply of agricultural produce and the demand for it, the former has led. It appears, therefore, that Ricardo minimizes, if he does not ignore, the influence of the social factor in the genesis of rent, when he connects it with the descent of the extensive margin of cultivation. It is, indeed, quite as compatible with an ascent of this margin, since the extraordinary gains which are transferred to the landlord may arise not only when an augmented demand raises the price of agricultural produce but also when wasteful methods of culture are outgrown and discarded with the progress of organization and technical skill. Rent increases, according to him, when the demand for agricultural produce is ahead of production. But the cost of production theory, to which he is pledged, should have made him observe that it may also rise when owing to progress in the art of the farmer or in transport facilities, a smaller outlay is required for obtaining the required produce. This, however, he does not do, nor does he clearly realize that the circumstances which lead to an augmentation of supply are as a rule identical with those which intensify demand. His estimate, therefore, of the effect of improvements on rent fails to represent correctly the course of agrarian develop-

ment or to indicate the totality of forces that condition it.

The hypothetical character of Ricardo's premises obscures also the fact that in the majority of cases, social and political arrangements have, instead of permitting a progressive increase of the landlord's share, made it the largest at the outset, and that an escape from its crushing weight has been subsequently provided by the growth of capital and enterprise and reclamation of new areas.* Such, in fact, is the historical origin of rent in those countries in which its character and effect have attracted the greatest notice. And since as ordinarily understood, it is a social phenomenon, its real nature and influence on economic life cannot be rightly estimated by studying it apart from its historical setting. Ricado's logic is faultless when he says that rent cannot be an item in distribution so long as there is an abundance of first class land which may be had free of charge. But he exhibits a heroic disregard for historical facts or misses their true import when he assumes, as he seems certainly to do, that rent did not figure in the early experience of modern societies, because they could at first utilize only a small portion of the total area which they had occupied or laid a claim to. They turned

* This is, of ourse, quite consistent with the common experience that rents tend to increase in absolute amount with the growth of population and prosperity.

to account only a fraction of what they nominally held merely because this fraction was all that they could utilize with their limited numbers and resources, so that the existence of equally good land within the occupied area could not moderate the demand for it or even set an outside limit to its value as a possible substitute under any conditions. And it was only the increase of numbers and the improvement of the machinery of government that enabled the people to exploit tracts which were even superior to those that they had originally applied themselves to. So the scarcity which is justly regarded as the cause of rent was most keenly felt at the beginning when other industries ranked only as subsidiary to agriculture. And the hold which it gave to the landlords over those who had to earn their livelihood was never completely relaxed except where political changes put an end to landlordism or industrial expansion and foreign trade weakened the dependence of the community on its own soil.*

* The experience of America has been altogether different. The colonists were granted security and other facilities by the mother country and so were able to take the fullest advantage of the liberality of nature. And when the separation came, their own government was sufficiently strong to protect those who were tempted by the fertility of the soil to migrate to outlying districts. And as there was abundance of suitable land which could be had for the mere asking, and there was no lack of enterprise on the part of the settlers, the Ricardian theory has found some sort of confirmation in the

This aspect of the question has received scant attention from the most prominent English economists. And the obvious reason for it is that the study of the subject was taken up by them after the progress of manufacture and trade had opened up in England a hundred different avenues of employment to those who were not above the need of working for their subsistence. Their attitude towards the problem has been admirably hit off by Hollander in his eminently suggestive article on the residual claimant theory of distribution. Adam Smith, as he correctly observes, regarded wages and profits as definite, independently determined shares of the produce, though the comparative dominance of the landlords in his day inclined him to the view that their revenue is the price of a monopoly. But land ceased soon after his time to be the most important factor in the industrial economy of England, and the change dictated a revision of economic doctrine which was attempted by Ricardo. He could not without ignoring the character of the industrial revolution which he witnessed, treat land and labour as agents of production or claimants in distribution of co-ordinate rank with capital, for they seemed to be merely instruments which the capitalist secured at the lowest possible price and used for his purpose. He was, therefore, led to regard profit as the residual share which was naturally swelled by

agrarian history of the new continent. This history, however, has few parallels in the course of events in the old world.

whatever economic surplus or unearned increment resulted from industry. The events which followed, *viz.* the decline of British agriculture and the consequent depression of rents, coupled as they were with a rise in agricultural wages definitely committed the classical school to the view that rent is merely the price of differential advantages calculated from a no-rent margin of utilization. A notable departure from the dogmatism of this doctrine was made by Marshall, who while insisting on the dissimilarity from the social point of view between land and reproducible instruments of production admitted at the same time that rent was not an absolutely unique product. But even he cannot be said to have offered a complete explanation of the character and influence of rent under divergent conditions of time, place and economic organization.

In America too, as Hollander observes, economic theory on the subject has reflected only too faithfully the conspicuous features of the industrial arrangement and outlook. Walker, for instance, gave labour the position of the residual claimant, because the abundance of virgin soil and the rapid growth of capital as well as the fact that labour seemed to be paid less out of it than from the outturn of present industry sanctioned the belief that production and not accumulated resources furnished the true measure of wages. To Clark, on the other hand, 'standing in the whirl of modern industrial life, with the entrepreneur dominating as

never before in the industrial process,' a residual theory of profit seemed to represent a natural and almost necessary phase of industrial development, while Fetter indicated and probably over-emphasized the importance of capital in the improvement of communications and the exploitation of unused resources when he questioned the propriety of regarding rent as a special revenue differing in any way in character from the price of other instrumental commodities.

All these theories are, as the learned writer of the article referred to truly says, only graphic interpretations of contemporary industrial life and not ultimate explanations of economic phenomena that appear under a diversity of conditions. A similar relative validity may, therefore, be conceded to the doctrine that rent is a monopoly price in circumstances which give to the owners of land a controlling influence over the rates of wages and profits. These circumstances are present where the course of history and the feeling that economic power is the foundation of political ascendency have led to the concentration of ownership of land in the hands of a small number of men, while the geographical and social environment has made its exploitation the principal business of the people.* For the privi-

* Even in industrial England, the cry to-day is that the load of the toilers should be lightened by reducing the revenues of those who 'neither toil nor spin'. And it points at any rate

leged position of the land-owning class enables it under conditions like these not only to exact a price for the use of every bit of their property that is worth exploitation, but also to appropriate sooner or later the benefit of every improvement in the demand for the produce of the earth or in the conditions of its supply. But where this happens, a brake is effectually put on progress, since it must proceed on the sure and broad lines of agricultural prosperity, where agriculture is the mainstay of the people. And agriculture or any other industry can not thrive, if those who are engaged in it are prevented from asserting their claim to the economic surplus that arises owing to enhanced demand or augmented productiveness.

Exception has, indeed, been taken to the characterization of rent as a monopoly price even in the most densely peopled countries. But there are certain points of resemblance between land as a commodity and those articles which are the subject of monopoly. The prices of both of them are not regulated by the cost of production, because in the one case nature has fixed a limit to supply while in the other open competition cannot bring down prices below the level which appears most profitable to the monopolists. Hence the intensity of the demand acts more powerfully in determining

---

to the feeling that the resumption of rents would benefit the community and, therefore, all sorts of productive workers.

their prices than in the case of commodities in the production of which competition has free play.* If, for instance, the number of men who care for rare works of art increases, the price of a Turner may rise from one thousand pounds to ten thousand pounds, or if the number of a certain class of invalids grows, the price of mineral waters may increase in the like proportion, though the cost of procuring them may have remained unaltered. Similarly, if owing to the dearth of profitable occupation or the rise of agricultural prices, the demand for land becomes more intense, its rent will increase considerably, though there may be no appreciable increase in the cost of fitting it for productive purposes. This upward trend may, no doubt, be checked by the utilization of inferior lands. But there is a limit also to the rise in the prices of monopolized articles owing to the fact that when they soar very high, people try to satisfy their desire for them by procuring similar articles which are not subjects of monopoly. So the possibility of substitution does not affect the validity of the principle just laid down, that in both the cases the price rises

* While competitive price equals the cost of production in the long run, monopoly price is said to be determined by 'largest net returns as influenced by elasticity of demand and by the various possibilities as to cost.' But the rent of land is fixed precisely in this manner if by 'cost' is understood the cost of fitting it for human use. Where this cost amounts to nothing, the demand alone tells.

with the demand, because the cost of production cannot be the determining factor of it. This truth is often expressed by saying that land has a scarcity value, which is however different in character from monopoly value, dependent as the latter is on the control of supply by the monopolizers. But to such a characterization of the value of land, it may be objected that the value of every economic good is based on scarcity, and that if by a scarcity value is meant one which is always above the cost, whatever it may be, of fitting the land for use, such a view contravenes by no means a rare experience in times of agricultural depression, when the rent of land falls sometimes below the interest on the landlord's outlay. Besides, monopolized articles also sell sometimes at or below the cost of their production, for the monopolist's control over the supply cannot help him much where the demand is sluggish or altogether inelastic. The truth is that the active factor in determining the value of land as of monopolized articles is the intensity of the demand, so that any improvement of it benefits their owners in a way which is out of the question where the commodity can be multiplied. Landlords are, no doubt, exposed to competition unlike the monopolists; but the circumstance that land can be utilized only where it exists and that, therefore, land near the farmer's house is, where other things are equal, preferable to land which is at a distance from it gives to each of them an advantage comparable

to that of monopolists, in a country which is densely peopled.*

Land differs, however, from those objects of monopoly that are capable of reproduction, in the fact that even when the demand for them is languid, their value cannot for any length of time remain below a certain level which is determined by the cost of reproducing them. For as the supply falls off, no effort is made to sustain it, if the state of the market does not promise an adequate compensation for the sacrifice. Land, however, does not pass out of existence like them, nor can its supply be extended like theirs. Hence its relative abundance in certain places as well as its relative scarcity in others has to be taken into account in an enquiry into its peculiar character as an economic commodity. It will then be seen that while the supply of most other things follows the demand and is obtained after some effort, the supply of land is already there as a present from nature when the demand makes

* Monopoly, says Prof. Hicks, implies 'substantial unity of action,' and he points out that it may be 'the result of an independent recognition by each of a number of possible competitors that he is a loser from unreasonable competition and will be a gainer by spontaneously acting in union with others.' But such a substantial unity of action is found also among landlords. The conditions of competition for land belonging to adjoining domains are clearly understood by their owners, and there is a tacit understanding among them not to put down rents in such a manner as might ultimately injure all of them.

its appearance. But the present has been made once for all, and however imperious the need for additional supplies may become, there can be no second gift to supplement the first. The value of land may, therefore, range from next to nothing to any amount in accordance with the intensity of the demand. It can never be exactly zero where it has been appropriated, for the demand to be effective must be supported by the offer of something in return which is acceptable to the appropriator. On the other hand, it may, when that demand is particularly intense, rise to a level that is barely consistent with the maintenance of the labour and capital that exist in the community.

The questions relating to rent are how it is determined where competition is free, and how its appropriation by a section of the community that is not directly engaged in producing wealth from the land affects the welfare of the whole of it.* The day is no more when landlordism was regarded as part of a quasidivine order of things, submission to which was not a matter of choice. Nor is there anything in its history which could justify its continuance under the new dispensation on the ground that it had existed under the old. For it

* But the subject owes almost all its interest and much of its complexity to the divorce of the ownership of land from its possession, which, wherever it is in evidence, makes rent not merely a distinguishable but a distinct share of the total national income.

had its origin in not a few instances in predatory strength and grasping avarice. And even where it was adopted as a means of enlisting the sympathy and support of the strong and the resourceful on the side of law and order, it ceased to answer this purpose after the proprietors had attained an established position, which passed to their heirs without any reference to ability or service. But some of those who are convinced that it has outlived its usefulness anathematize any attempt to dispense with it because they apprehend that it will destroy many good things which have in the progress of ages become inextricably bound up with the system. In spite, however, of the forebodings of these alarmists, the disappearance of a small leisured class may leave the face of society very much what it is to-day. There are others, again, who would defend it on the ground that rent merely equalizes the opportunities of those who would make a living out of the land by cutting down the earnings of such as are in possession of the better grades to ordinary profit on their outlay. This argument derives whatever cogency it seems to possess from the use of rent in the Ricardian sense of a differential advantage. But even then it remains to be shown that a particular class can have a better right than the community to whatever remains after meeting the cost of exploitation, especially where this surplus has a tendency to increase progressively and is due more to general progress than to any special

sacrifice on the part of its appropriators. And the case is not much improved by observing that neither labour nor capital can prefer a claim to rent in as much as it is the specific product of land or, to put it more plainly, a measure of what land adds to their efficiency. For the productivity of land as estimated in this way is more an index of its relative scarcity than of anything else. If land of the best quality were unlimited in supply and equally accessible, the efficiency of the labour and capital employed on it would have been represented by the whole and not by a fraction of the yield. It is the niggardliness of nature or of man that sets bounds to the productiveness of the human factor or rather determines the reward which it may claim for itself.

Clark, therefore, simply explains the phenomenon of rent as an item in the distribution of wealth when he characterizes it as the specific product of land. And the same may be said of his observations on the value of labour and capital. He examines the modern machinery of production and distribution with a view to indicate how the total income of a community is divided under competitive conditions. And he does this with remarkable clearness and insight into the nature of this competition. But tc explain a phenomenon is, as Taussig remarks, not the same thing as to justify it. Before however the question is treated as one of justice or even of expediency, we must be sure that it

is possible to replace the present arrangement by one which is more equitable or expedient. For it may be objected that the evil which is decried is inseparable from the institution of private property and that no attempt to do without it has so far stood the test of time. The limits of the present treatise will not permit us to discuss this important and much debated subject. But it may be pointed out that the real issue is obscured when it is said that the remission of rents will not abolish landlordism but only create out of the tenant farmers a new set of landlords. For landlordism is found fault with because the concentration of real property in the hands of a small number of men and the consequent divorce of ownership from possession are felt to be opposed to the public welfare. The claims, therefore, of the two kinds of individual ownership may be decided mainly on the perfectly intelligible ground of expediency.

It is essential, as Pierson observes, that land, which is the most important instrument of production, should yield the richest produce which it is capable of yielding. Does landlordism offer special facilities for the attainment of this end? In answering this question due account has to be taken of the immediate and prospective interests of the community and of the possible conflict between them. For there are modes of exploitation which obtain the highest present return but at the same time starve the soil and ultimately exhaust it. This un-

desirable result is prevented, according to Leroy Beaulieu, by separating ownership from occupancy, for the landlord must in his opinion 'stand for the future and permanent interests of the domain while the tenant represents naturally enough its present and passing interests'. But even where the landlord has the ability and the inclination needed for a far look into the future, he may not succeed always in preventing his tenant from adopting a predatory mode of cultivation, especially towards the close of his lease. And in any case the antagonistic interests are better safeguarded by giving them to one and the same man. Even then, it is true, the interests of the community may not be effectually protected, for while following his particular interests according to his own light, the occupying owner cannot always consult the claims of his community. But this is quite as true of the proprietor who delegates for a consideration the right of working his land, as there is no reason for assuming that his interests are necessarily or even often coincident with the welfare of others.

The retention, again, of the total net produce by those who are engaged in producing wealth from the land and who are generally a larger and more important section of the community is defensible on broad grounds of social policy. Where moreover land appreciates in consequence of an improvement in the art of production, those who work it have certainly a better title to profit by it than a

leisured class of owners, and the system which gives the entire benefit of the amelioration to these, often prevents the much more important class of productive workers from looking far ahead and shaping their plans accordingly. Social progress and industrial development augment, it is true, the gains of the owners of other capital goods in much the same manner. But the analogy is not complete, for when social or industrial progress raises the income of the latter beyond a certain limit, competition immediately sets in to multiply the kinds of instruments which they own and thus to deprive them of their special gains. The landlords on the other hand are able to absorb the whole of the economic surplus, in as much as they control the supply of a factor of production which ameliorates under the influence of progress. At the same time in consulting their immediate interests, they are less likely to make a due allowance for prospective gain, as the underestimate due to perspective of future advantages is likely to be greater in the case of persons who profit by circumstances that they do nothing to create.

If, however, the net return is assured to those who work the land, the sense of ownership and the feeling of independence may induce fore-thought and thrift and a readiness to do their best. These qualities which form the *sine qua non* of industrial success are completely absent in backward and densely peopled countries, because the cultivator

feels that he may have to suffer for the improvidence of others if they people down to the limit of bare subsistence and thus enable the landlord to appropriate from the product of capital and labour almost all that remains after deducting what is absolutely necessary for maintaining the workers in existence. For wherever the ownership of land is dissociated from occupation, there is the vague feeling that land can be always had for a price, which encourages improvidence except in persons who are so happily constituted as to recognize the duty of self-restraint even where the ordinary inducements to it are lacking. Hence in certain old and backward countries in which landlordism has existed for a considerable length of time, the tenants are without hope and what is even worse, without fear, for rent, they see, must be famine rent for them, inspite of all that they may do to improve their condition. Where such is the case, it is only a transfer of ownership to them that can lift them immediately from the slough of despair and improve their efficiency.

But there is this to be said in favour of landlordism that it facilitates the transfer of the possession of land where such a transfer seems to be desirable in the interests of production. For the owner of a field when he finds that he cannot work it to advantage naturally decides to part with his ownership of it for a price, while the landlord in similar circumstances grants the use of it for a

periodic payment. And it goes without saying that for a cultivator of limited means it is easier to take a lease than to buy the fee simple outright however advantageous that may be in the long run. This natural preference for a lease is moreover particularly pronounced where large holdings are required for productive purposes that involve a considerable amount of risk. Hence there are elements of instability in the agrarian arrangement that combines ownership with occupancy. And as a matter of fact, they have parted company in certain instances for the simple reason that free trade in the use of land is more important for the producer and the community than facilities for the transfer of proprietary rights. Where land can be rented from year to year or for periods that are not indefinitely long, each farmer comes in course of time to occupy what he can work to the best advantage. "The marginal farmer is found on the marginal land, the average farmer on average land and the most efficient farmer on the most productive land." And this, as Taylor observes, is certainly the most economical application of efficiency to productivity. Besides, where the land is the property of a wealthy and leisured class, there is a greater chance of the investment of capital for its improvement than where it is owned by small men. So it is not always easy to decide which of the two forms of holding land is beneficial to the community in the long run.

Landlordism appears at its worst, where the land is held by small men who have few other avenues of employment open to them. Every increase in their numbers by intensifying the demand for land adds to the income of the landlord, while it tends to lower their earnings, because owing to the dearth of other occupations, their standard of comfort comes to be fixed for them under the stress of competition by the poorest members of their class. A steadily augmenting revenue is thus assured to the landlord, who, especially if he is the owner of an extensive estate, does not realise the necessity of improving it for the purpose of bettering his income. But landlordism presents a different character where the land is occupied by capitalists who work it because the profits of farming are commensurate with those that can be earned in other lines of business. The demand for land can not in circumstances like these operate with the same directness and force to enhance rent by cutting down wages and profits, for these are determined as much by the state of other industries as of agriculture. The landlord, therefore, if he is fully alive to his interests, tries to add to his income by improving his estate, and thus the relation between him and his tenant partakes of the nature of partnership in an industrial undertaking.